BENEFICIAL CORPORATION
Annual Report 1981

Beneficial Corporation is one of the largest diversified financial services companies in the world. Including non-consolidated subsidiaries, total corporate assets exceed $8 billion. Finance Division receivables outstanding total approximately $4.5 billion.

Consumer finance is the cornerstone of Beneficial's business, and the basis of the Company's market franchise. Within consumer finance, real estate secured loans represent Beneficial's key strength, and its prime growth market. Outstandings now exceed $2 billion. Beneficial provides consumer finance services in the United States, Canada, the United Kingdom, Australia, West Germany, Japan, New Zealand and Ireland.

Along with consumer finance, Beneficial is also a major source of insurance services, primarily for consumers, but also for corporations. Through the Beneficial Insurance Group (BENICO), whose assets exceed $1 billion, Beneficial provides a wide variety of life, annuity, accident and health, and property and liability insurance coverages. The major thrust of BENICO's business is consumer credit insurance related to Beneficial loans and the loans of a rapidly expanding roster of unaffiliated consumer lenders as well. BENICO also participates in property and casualty direct and reinsurance markets covering relatively small portions of a wide variety of property and liability and accident and health risks.

Beneficial is a major participant in the banking industry through its First Texas and Peoples Bank subsidiaries. First Texas Financial Corporation is the second largest savings and loan company in Texas with total assets in excess of $2 billion. Peoples Bank and Trust Company is a small commercial bank operating in Wilmington, Delaware. Importantly, Peoples Bank is the conduit through which Beneficial issues Mastercard and VISA credit cards.

Beneficial has a significant position in the leveraged and conventional leasing markets through its Beneficial Leasing Group subsidiary. Beneficial also has a small, but rapidly growing commercial finance division engaged in accounts receivable and inventory lending as well as other forms of secured commercial finance credit extension.

Finally, Beneficial conducts a significant merchandising business through Western Auto Supply Company. Western Auto is a hard goods retailer specializing in automotive supplies and service. Significantly, Western's strongest market position is in the rapidly-growing "Sun Belt" southern tier of the United States.

Beneficial's customer base, throughout the operating subsidiaries, is the middle class consumer—both in the United States and abroad. Beneficial's marketing thrust in the Consumer Finance Group now centers almost exclusively on homeowners, a market in which the Company competes head-to-head with banks, savings and loans, credit unions and other lenders. While competition for second mortgages is active, the potential market is huge. Market studies have indicated that total unleveraged housing equity in the United States exceeds one trillion dollars. However, total second mortgage loans currently outstanding in the U.S. are only about $30 billion.

Beneficial—lender of first resort.

THE STORY OF A LOAN

The compelling logic of a second mortgage. **See page 17.**

Beneficial Corporation
Highlights

(in millions) Years Ended December 31	1981	1980	1979	% Increase (Decrease) 1981 over 1980	% Increase (Decrease) 1980 over 1979
Consolidated					
Income From Continuing Operations	$ 38.9	$ 98.1	$ 96.5	(60.3)%	1.7%
Discontinued Operations, After Income Taxes					
Income (Loss)	(.5)	.8	8.1		(90.1)
Interest Expense Related to Investment	(5.4)	(5.1)	(4.3)		
Loss on Disposal	(40.7)	—	—		
	(46.6)	(4.3)	3.8		
Net Income (Loss)	(7.7)	93.8	100.3		(6.5)
Earnings Per Common Share					
Continuing Operations	.97	3.63	4.04	(73.3)	(10.1)
Discontinued Operations	(2.08)	(.19)	.17		
Net Income (Loss)	(1.11)	3.44	4.21		(18.3)
Dividends Per Common Share	2.00	2.00	1.95	—	2.6
Book Value Per Common Share**	33.92	37.45	36.19	(9.4)	3.5
Shareholders' Equity at End of Year*	1,003.5	1,079.7	1,029.1	(7.1)	4.9
Finance Division					
Revenue	1,466.1	1,323.2	982.9	10.8	34.6
Net Income	61.9	100.6	98.8	(38.5)	1.8
Principal of Finance Receivables**	4,445.8	4,252.9	4,264.0	4.5	(.3)
Average Account Balance**	1,811	1,344	1,154	34.7	16.5
Number of Accounts**	2.5	3.2	3.7	(21.9)	(13.5)
Reserve for Credit Losses as % of Principal of Finance Receivables**	4.42%	4.58%	4.78%		
Savings and Loan Division					
Revenue	$ 212.6	$ 164.5	$ 154.4	29.2	6.5
Net Income (Loss)	(24.5)	(.8)	13.8		
Equity of Beneficial in Net Income (Loss) plus Purchase Accounting Adjustments	(21.3)	3.1	12.6		(75.4)
Merchandising Division					
Net Sales and Other Revenue	645.7	669.5	750.7	(3.6)	(10.8)
Net Income (Loss)	12.0	4.8	(4.6)	150.0	

*Includes Redeemable Preferred Stock of $125.0 at December 31, 1981 and 1980 and $103.0 at December 31, 1979.
**At end of year.

To Our Shareholders

The year 1981 was a painful, transitional period for Beneficial Corporation. While earnings results were most unsatisfactory, major steps were taken to position your Company for improved performance in the future.

For the year, a net loss of $7.7 million was recorded compared to restated net income of $93.8 million in 1980. Included in the loss was a $40.7 million aftertax writeoff taken on the sale of our subsidiary, Spiegel, Inc., to Otto Versand (GmbH & Co.) of Hamburg, West Germany. This transaction, which was completed on January 6, 1982, resulted in a cash payment to Beneficial of approximately $50 million, which has been used to reduce short-term debt. Moreover, from a strategic perspective, the sale removes from Beneficial's business portfolio a company that has consistently failed to earn a satisfactory return on our investment, and has called for management talents outside our realm of expertise.

Excluding Spiegel, earnings from continuing operations fell to $38.9 million from a restated $98.1 million in 1980. Earnings per share from continuing operations declined to $.97 from $3.63 per share (as restated) in 1980. High interest rates were, far and away, the major fundamental factor impeding operating results. Lending spreads for both the Consumer Finance Group and the Savings and Loan Division were severely impacted in 1981.

Hastened and intensified by the year's extremely disappointing operating results, Beneficial Corporation went through what can perhaps best be described as a pronounced period of corporate introspection in 1981. Aided by a leading independent consulting firm, management embarked on a major strategic study of our products, markets, and future prospects. Conclusions as to future opportunities reached by that study, which is now largely complete, are highly encouraging. However, the study made clear that strong financial performance could not be achieved without significant changes. While it is clear that the consumer finance business remains an extremely profitable enterprise (even in a high interest rate environment), such profitability can be achieved only with absolute maximum operating efficiencies. Further, a company must concentrate its marketing efforts only in the attractive states with the combinations of reasonable rate structures, strong state economies, and sufficient potential market size to provide for economies of scale in operating costs. Moreover, on a customer level, it is clear that only the most attractive customers must be pursued, particularly in the environment of an unreasonably liberal Federal Bankruptcy law. Succinctly, the research indicated that high returns in this business would come only to those companies that zero in on the better customers in the better states—and do so in the most efficient manner.

Reflecting these conclusions, Beneficial reassessed and substantially reorganized domestic lending operations in 1981. Over 450 domestic loan offices were closed or consolidated, and the number of U.S. operating departments was reduced from 16 to 9. New lending operations were effectively stopped in 12 unattractive states, and remaining loan operations in the states of Alabama and Tennessee were sold. Significant reductions in field personnel and headquarters staff were

made, both by early retirements and terminations. The Beneficial Finance System's total employment was reduced by 1,800 (15%) in 1981. These moves resulted in an $8.4 million expense provision for restructuring costs (taken in the third quarter) to reflect severance payments and early retirement allowances as well as losses on the sale of Alabama and Tennessee operations. Nationwide, new lending operations are focusing almost exclusively on homeowners—specifically on real estate secured loan products.

The Finance Division emerging from this program is a much leaner, stronger entity—with its focus sharpened on real estate lending in the prime locales to the upscale customer.

For BENICO, the Beneficial Insurance Group, 1981 was necessarily also a year of substantial change and strategic thought. While BENICO continued its outstanding performance and recorded its tenth consecutive year of record earnings, the product redirection of its major customer, the Beneficial Consumer Finance Group (CFG), necessitated significant changes in BENICO's focus as well. Traditionally, credit insurance customer penetration on large real estate secured loans has been significantly less than on smaller unsecured loans. New programs and products to increase insurance profitability on real estate secured loans had already been evolving, but 1981 saw a necessary acceleration of those efforts. 1982 will be a transitional year for BENICO as it adjusts to the real estate focus of the CFG and intensifies its pursuit of outside business—in both credit-related and non-credit consumer and business insurance lines.

Results of our two major remaining non-consolidated subsidiaries were mixed in 1981. Western Auto Supply Company showed good progress in its long-term turnaround, with profits rebounding to $12.0 million. First Texas Financial Corporation, however, like virtually the entire thrift industry, suffered through an absolutely awful year, contributing a $21.3 million net loss to our bottom line. Programs are currently in progress to begin to relieve the pronounced asset-liability interest sensitivity mismatch of this subsidiary. But, needless to say, the major market and structural problems of the savings and loan industry will not vanish overnight. First Texas appears virtually certain to show a very substantial net loss again in 1982.

Unquestionably, interest rates remain the major economic variable affecting Beneficial and the key determinant of profitability changes. In the future we plan to place greater reliance on long-term debt to lessen our sensitivity to short-term interest rate swings. Also, this year's personnel cuts and office closings eliminate a substantial layer of operating expense, and increase *preinterest* profitability. But the fact remains that changes in borrowing costs, particularly short-term costs, exert the key influence on our profitability, and will likely continue to do so for the foreseeable future. Management's task and goal is to reduce the *magnitude* of this exposure as quickly as possible.

We wish to thank our shareholders for their continued support during these trying times for Beneficial Corporation. Our responsibilities to you do not weigh lightly upon us. Cognizant of our duty to you, management remains fully committed to the $2.00 per share common dividend despite the recently depressed level of profitability. Moreover, management continues to foresee unique opportunities for Beneficial Corporation in the evolving financial services marketplace.

Finn M. W. Caspersen
Chairman of the Board
Chief Executive Officer

Gerald L. Holm
Vice Chairman of the Board

Robert A. Tucker
Office of the President
Chief Financial Officer

Earnings Summary

Given the sale of Spiegel, Beneficial's results for previous years have been restated to make earnings from continuing operations comparable.

The restatements reflect the removal of Spiegel's earnings as well as the adjustment of corporate interest expense for the amount of interest required to carry the investment in Spiegel.

Finance Division earnings include profits of both the Consumer Finance Group and the BENICO Insurance Group, reduced by the interest expense, after income taxes, related to investment in the Insurance Group.

Similarly, corporate net income is presented after deduction for interest expense, which is the aftertax interest expense related to investment in the Savings and Loan and Merchandising Divisions.

Earnings per common share are calculated after subtracting preferred dividends, which totaled $17.2 million in 1981 and $17.1 million in 1980.

Beneficial Corporation—Income From Continuing Operations

(in millions)	1981	1980	% Increase (Decrease)
Consumer Finance Group	$ 11.1	$ 50.2	(77.9)%
Insurance Group	63.1	59.5	6.1
Interest Expense (a)	(12.3)	(9.1)	
Finance Division	61.9	100.6	(38.5)
Savings and Loan Division	(21.3)	3.1	
Merchandising Division	12.0	4.8	150.0
Interest Expense (b)	(13.7)	(10.4)	
Net Income	$ 38.9	$ 98.1	(60.3)
Earnings Per Common Share—Continuing Operations	$ .97	$ 3.63	(73.3)%

(a) Interest expense, after income taxes, related to investment in the Insurance Group.

(b) Interest expense, after income taxes, related to investment in the Savings and Loan and Merchandising Divisions.

Review of Fourth Quarter Results

Beneficial Corporation's fourth quarter income from continuing operations (excluding Spiegel's results) declined to $7.6 million from a restated $23.6 million in the 1980 period. On a per share basis, income from continuing operations declined to $.14 from $.87.

Finance Division earnings were strong, increasing to $22.9 million from $22.7 million in 1980. Significantly, Consumer Finance Group profits rebounded sharply to $10.6 million, the Group's best performance since the third quarter of 1980. Western Auto also recorded a strong performance, with profits climbing to $2.7 million from $2.1 million in the fourth quarter of 1980. However, First Texas Financial's results deteriorated substantially to a net loss of $14.4 for the fourth quarter of this year from an earnings contribution of $1.6 million in 1980.

First Texas' fourth quarter loss was inflated by a $4.7 million adjustment for an overaccrual of tax recoveries during the first three quarters of 1981. It had been assumed that the taxable losses of First Texas would be applied in the consolidated tax return of Beneficial, thereby producing a 46% offset. The magnitude of the loss of First Texas coupled with deductions generated by Beneficial's leveraged leasing operations have made this approach impractical. Therefore, the 1981 loss of First Texas will be applied primarily against taxable income generated prior to its acquisition by Beneficial, limiting the recovery to approximately 30%.

Full fourth quarter income statements for each of Beneficial's Divisions are presented within the Financial Section of this report.

Financing

Bond market conditions in the United States were, to say the least, unsettled for most of 1981. By any historical measure, interest rates, both long and short-term, were extremely high for virtually the entire year, and Beneficial's average cost of funds was the highest in the Company's history.

In light of the level of interest rates, Beneficial was not active in long-term financing in 1981, with only two bond issues brought to market. In January a $75 million issue of 10-year debentures was sold at an interest rate of 13⅜%. An unusual feature of the issue was the attachment of warrants enabling the purchaser to acquire a like amount of bonds under the same terms and conditions for a period of 5½ months. Clearly, this feature was attractive to investors who believed that interest rates might fall. It is estimated that this warrant "sweetener" reduced the interest cost of the issue by about 60 basis points below what it would have been without the feature. Since interest rates rose after the issue's sale, none of the warrants were exercised.

In mid-December the Company began sale of medium-term notes due in various maturities from 9 months to 5 years from date of issue. While initially offered on a best efforts basis through investment bankers, plans call for the notes to be offered directly to the public through Beneficial's broker-dealer subsidiary, Beneficial Securities, Inc., once requisite regulatory approvals have been received. Issued in $25,000 minimum denominations with $1,000 increments, the notes are aimed mainly at institutional investors, but future issues may be offered in much smaller denominations and sold directly to individual investors. Initial plans are that as this and successive issues are sold out, a new issue will be offered so that the Company is directly issuing medium-term notes virtually continuously, in a process not unlike commercial paper issuance. Since Beneficial has a very substantial demand for funds, the direct issuance of notes appears to offer a new, cost-effective funding source that can complement traditional investment banker-underwritten bond issues.

Reflecting $158.3 million in maturities of older, cheaper debt issues, as well as the new debt sold, Beneficial's embedded cost on total long-term borrowings rose noticeably in 1981, reaching 9.70% at December 31, up from 8.81% at the end of 1980. Short-term rates moved markedly higher from 1980's already costly level. As illustrated in the table below, Beneficial's average cost of short-term debt in the United States rose to 17.17% in 1981 from 13.63% in 1980 and 12.14% in 1979.

Short-Term Borrowing Cost—United States

	1981	1980	1979
1st quarter	18.27%	14.70%	10.80%
2nd quarter	16.16	15.44	10.81
3rd quarter	18.50	9.79	10.99
4th quarter	15.26	14.98	14.23
Full year	17.17%	13.63%	12.14%

The impact of this explosion in short-term interest rates on Beneficial was crushing. Overall, the Company's average rate of interest expense on all borrowings, long and short, worldwide, rose to 11.53% from 10.16% in 1980 and only 8.89% in 1979. The quarterly pattern of this key variable over the past three years is disclosed in the table below.

Worldwide Melded Average Borrowing Cost

	1981	1980	1979
1st quarter	11.18%	10.29%	8.40%
2nd quarter	11.27	10.67	8.46
3rd quarter	12.15	9.07	8.88
4th quarter	11.43	10.75	9.66
Full year	11.53%	10.16%	8.89%

As late as 1975, Beneficial's overall interest cost was only 7.10%.

Beneficial's basic corporate financial strategy continues to be to finance growth through long-term debt to the greatest extent practicable. While short-term debt increased to 25.2% of total borrowings at the end of 1981 from 19.6% at the end of 1980, this ratio is anticipated to move significantly lower during 1982.

Consumer Finance Group

Consumer Finance Group (CFG) net income fell sharply in 1981, declining to $11.1 million from $50.2 million in 1980. Lending spreads were at their lowest level in Beneficial's history, as the Company's average cost of all borrowings increased to 11.53% from 10.16% in 1980. Also, 1981 results included a non-recurring $8.4 million total pretax provision for restructuring costs of which $7.2 million was for severance and early retirement allowance payments and $1.2 million was for loss on the sale of unprofitable loan operations in Alabama and Tennessee. Finally, CFG results were burdened by $6.4 million in net aftertax foreign exchange translation losses. Net charge-off experience improved in 1981. Gross finance receivables charged off, net of recoveries, declined to 2.17% of average receivables from 2.34% in 1980. While the ratio of operating expenses (except interest and credit loss provision) to average receivables increased to 8.68% from 8.53% in 1980, this key measure of expense control improved in both the third and fourth quarters as the impact of cost-cutting measures took effect. The 1981 calculations exclude the special provision for restructuring costs.

Despite a deliberate run-off of $104.7 million during the fourth quarter, receivables increased $192.9 million for the year to total $4.446 billion at year end. Expansion of real estate secured loans represented more than all the growth, since unsecured personal loans and sales finance obligations continued to runoff rapidly. Real estate secured loans increased $565.0 million to $2.035 billion at year end, up from $1.470 billion at the end of 1980. Homeowner loans now represent 45.8% of Beneficial's total portfolio. A breakdown of the receivable portfolio at the past three year ends is disclosed in the table above.

Principal of Finance Receivables

at December 31 (in millions)	1981	1980	1979
Real estate secured loans	$2,035	$1,470	$ 831
Other loans	1,832	2,197	2,766
Sales finance contracts	241	326	475
Bank credit card receivables	106	92	92
Leasing and commercial finance receivables	232	168	100
Total	$4,446	$4,253	$4,264

Essentially, Beneficial has now become a second mortgage company.

The unreasonable nature of the current Federal Bankruptcy Act has forced Beneficial to sharply restrict unsecured lending, and, moreover, to make new loans essentially only to homeowners. Some new unsecured loans will continue to be made, but only to homeowners or long-term customers with strong credit standing and the clear potential to be qualified for a larger real estate secured loan.

Under the current law, bankruptcy has become an "easy out" for some consumers—a new method of "financial planning" for the borrower who may or may not be over-extended. This situation stems from the fact that the Federal Bankruptcy Act takes no account of a consumers' future earning power, but is based solely on the borrower's assets and liabilities—his or her personal balance sheet at a snapshot moment.

Moreover, even in bankruptcy, the consumer (and spouse) are permitted to retain substantial equity in a home, car, and personal possessions. Accordingly, the financial pain of bankruptcy (along with its social stigma) has been significantly reduced, and a new class, the "affluent bankrupt," has evolved. Independent studies have indicated that about 30% of consumer bankrupts could have repaid all their debts over time from future income without undue financial sacrifice. From the lender's perspective, such bankruptcy is not predictable. Even sophisticated computerized credit scoring systems (including attempts at "psychographic" evaluation of a consumer's moral commitment to fulfill his obligations) fail to predict potential bankrupts. Thus, Beneficial's only defense against this process is in secured real estate loans where the Company's investment is protected. In so doing, Beneficial (and many other consumer lenders) must now ignore about 25 million non-homeowning households. In short, the current bankruptcy law is restricting credit to those who have already amassed assets and denies credit to those most in need of it.

Reflecting this new strategy's implementation, Beneficial's net charge-offs due to bankruptcy declined to $32.6 million in 1981 from the extremely high record level of $47.4 million in 1980. Nevertheless, over the past three years (the new Bankruptcy Act went into effect on October 1, 1979) Beneficial has written off the distressingly substantial total of $102.5 million in bankruptcy losses.

Real Estate Secured Loans

As indicated by the above table, second mortgage loans showed outstanding growth again in 1981. Despite the significant growth of second mortgages in recent years, the potential market still appears huge. While absolutely reliable statistics are not available, it is believed that total second mortgage loan outstandings in the United States are approximately $30 billion. Total outstanding consumer instalment credit is more than $333 billion. Moreover, it is estimated that total unleveraged housing equity (market value minus related mortgage loans) in the United States exceeds one trillion dollars. Accordingly, dramatic future expansion of outstandings appears sustainable for many years, still at a quite low level of risk if the loans are properly made. This is particularly true since Beneficial and many other lenders are *demanding* second mortgage security as the only way to obtain consumer credit while the current Bankruptcy Act is in effect. Growth in secured second mortgages will take the place of what might have been growth in unsecured credit.

As second mortgage lending grows it generates huge operating efficiencies for Beneficial. Clearly, costs of making any loan, large or small, (interview time, credit investigation, etc.) are essentially the same. The only incremental expense for a real estate secured loan is the cost of the independent real estate appraisal, which averages about $100, and is, in some states, paid by the borrower. When these expenses are spread over numerically fewer but larger real estate secured loans (which averaged $14,835 in 1981) the costs per dollar loaned are much less than on smaller unsecured obligations. Moreover, credit losses are lower by a huge margin. Beneficial's gross writeoffs, before proceeds from sale of foreclosed properties, on real estate secured loans were only $3.8 million in 1981 on average outstandings of $1.735 billion, a ratio of only 0.22%. In addition, collection costs are much lower, since second mortgage delinquency is quite modest, and fewer loans result in fewer payments to process. Nevertheless, during 1981 the interest rate charged, including amortization to income of points, was only slightly lower than on unsecured loans. Thus, although credit insurance earnings on homeowner loans are noticeably less, second mortgages still are, far and away, the most profitable loan product Beneficial Corporation can offer. Even given a rationalization of the Federal Bankruptcy Act, real estate secured loans would remain Beneficial's key growth product for the future, but not to the exclusion of selective unsecured lending.

Beneficial's typical second mortgage loan is made to an established homeowner who has lived in his or her home for at least several years. Conservative appraisals are made by independent professional appraisers, and the total of the outstanding first mortgage and the new second is not allowed to exceed 70%-75% of market value. In some areas of the country where recent-year real estate inflation has been particularly pronounced this percentage is even lower. Average family income of second mortgage borrowers approximates $25,000.

Reflecting the growth in homeowner lending, Beneficial's average size loan (net) made increased 27.6% to $1,940 in 1981 from $1,520 in 1980. Cash invested per employee, a key measure of efficiency, climbed to $598,500 at the end of 1981 from $442,500 at December 31, 1980.

Sales Finance

Although sales finance outstandings continue to decline, Beneficial continues, in selected instances, to purchase packages of sales finance obligations, but subject to extremely rigorous criteria. Recently, yield requirements to Beneficial were a minimum of 30%, with a mix of at least 75% homeowners in the customer base of any sales finance relationship. Also, the size of contracts purchased has increased substantially, and now averages approximately $800. Subject to these conditions, sales finance activities are profitable in their own right, and are a valuable "feeder" source of future second mortgage borrowers.

Revolving Loan Programs

Pre-approved, revolving loan programs whereby the customer takes down credit only as needed showed good growth in 1981. Revolving loan net receivables totaled $166.1 million at year end, a 39.1% increase over $119.4 million at December 31, 1980. Revolving loan programs have received regulatory approval in 29 states. Under the "Triple AAA" checking plans, consumers access a line of credit secured by a second mortgage on his or her home.

Revolving loan programs are implemented through Peoples Bank & Trust Company of Wilmington, Delaware, Beneficial's commercial banking subsidiary. "Triple AAA" checks are issued to each borrower, enabling the customer to access his or her approved line of credit only when needed, in the precise amount required. The resulting loans that the consumer creates are immediately transferred to the Beneficial loan office initiating the transaction.

Revolving loan programs provide marked operating efficiencies in reducing office paperwork and staff interview and investigation time. Moreover, consumers appreciate the convenience of not having to visit the loan office and reapply each time additional cash or a new loan is desired. Real estate secured revolving loan pro-

grams are particularly attractive, drawing high quality consumers to Beneficial and enabling them to utilize quite significant amounts of credit. Significant growth in all forms of revolving credit is expected in future years.

Foreign Operations

Foreign receivables increased moderately in 1981, rising to $678.8 million, or 15.3 % of the total portfolio from $598.8 million, or 14.1% of the portfolio at the end of 1980. Reasonable growth was experienced in Canada and Australia, while the United Kingdom and West Germany contracted due to depressed economic conditions in those countries. The smaller markets of Japan and New Zealand continued to develop. In the United Kingdom Beneficial operates as Beneficial Trust Limited, a fully licensed banking company empowered to take deposits and provide a full range of consumer and commercial banking services.

Income Tax Service

Beneficial Income Tax Service showed good growth in 1981. Revenues increased a healthy 26.1% to $8.9 million, in spite of a 1.5% decrease in the number of returns prepared. Beneficial Income Tax Service is believed to be the second largest tax preparer in North America, although trailing market leader H & R Block by a huge margin.

Credit Loss Experience—Condition of the Portfolio

Beneficial's credit loss experience improved in 1981. As illustrated in the table on the facing page, gross finance receivables charged off, net of recoveries, declined to 2.17% of average gross receivables outstanding from 2.34% in 1980. The reduction in loss experience was importantly influenced by lower charge-offs from consumer bankruptcy because of the shift to second mortgages. While remaining at a painfully high level, bankruptcy losses declined to $32.6 million in 1981 from an egregiously high $47.4 million in 1980. As discussed previously in this report, bankruptcy remains a serious operating problem—a problem so great as to force Beneficial to significantly change its method of operation.

The problem of significant losses in the unsecured portion of the portfolio is importantly mitigated by the rapidly expanding proportion of high quality real estate secured loans in the receivables base. Credit losses on real estate secured loans remain extremely low. Gross write-offs from real estate secured loans, before proceeds from sale of foreclosed properties, totaled only $3.8 million, or 0.22% of mean real estate outstandings in 1981, up slightly from 0.16% of outstandings in 1980. Implicitly, the anticipated markedly expanded proportion of real estate secured loans in the portfolio in future years would appear to foretell significantly lower overall credit loss experience for Beneficial, barring severe economic dislocations.

Foreign Consumer Finance Receivables

(in millions)	12/31/81	12/31/80	12/31/79
Canada	$231.1	$203.3	$227.0
Australia	234.6	183.1	155.4
United Kingdom	118.3	119.2	85.4
West Germany	64.0	74.2	90.7
Japan	14.3	8.7	2.7
New Zealand	14.5	9.5	4.7
Ireland	2.0	0.8	—
Total	$678.8	$598.8	$565.9

Consumer Finance Offices

(at December 31)	1981	1980	1979
United States	1,461	1,898	2,047
Canada	137	159	178
Australia	101	114	105
United Kingdom	71	64	55
Japan	12	13	7
West Germany	7	7	6
New Zealand	3	2	1
Ireland	1	1	0
Total	1,793	2,258	2,399

Largest States

(in millions)	Principal of Receivables	% of U.S. Total
California	$1,065	30.6%
New York	271	7.8
Ohio	246	7.1
Pennsylvania	237	6.8
Texas	183	5.3

Data for the seven years ended December 31, 1981

(amounts in millions)

Year	Provision for Credit Losses(a)	Gross Amount of Receivables Charged Off	Finance Receivables Charged Off(a) Amount	Finance Receivables Charged Off(a) % of Average Gross Finance Receivables	Reserve for Credit Losses at End of Year Amount	Reserve for Credit Losses at End of Year % of Finance Receivables at End of Year(b)	Consumer Loan Receivables More Than Two Months Delinquent(c)
1981	$108.3	$120.0	$106.6	2.17%	$196.5	4.42%	1.54%
1980	107.2	124.7	114.7	2.34	194.8	4.58	1.55
1979	102.4	81.8	73.2	1.87	203.7	4.78	1.26
1978	70.9	59.0	51.1	1.57	147.8	4.90	1.15
1977	65.7	55.8	48.5	1.74	126.3	5.00	1.08
1976	60.4	54.8	48.4	2.04	106.3	5.10	1.19
1975	54.8	57.2	51,8	2.42	95.0	5.20	1.29

(a) Less offsetting recoveries.
(b) After deducting Unearned Finance Charges.
(c) Excludes bank credit card receivables and receivables of West German bank.

During 1981, Beneficial continued its policy of gradually reducing the relative size of the loan loss reserve in recognition of the significantly increasing proportion of real estate secured loans in the portfolio. At year end the reserve for credit losses was $196.5 million, or 4.42% of the principal of finance receivables, down from 4.58% of receivables at the end of 1980. Nevertheless, at its year end level the reserve was 1.84 times actual 1981 net charge-offs, among the most conservative ratios in the entire consumer lending industry. Some major banking industry competitors maintain their consumer loan loss reserve at a level only slightly in excess of most recent year losses.

Reflecting the economy's impact on the unsecured portion of the loan portfolio, loan delinquency remains relatively high, by Beneficial standards, at year end. Consumer loan receivables more than two months delinquent totaled 1.54% at December 31, down slightly from 1.55% at the end of 1980, but above the approximate 1.10-1.30% range of the late 1970's. Clearly, this percentage reacts to the fact that the nationwide unemployment rate approached 9% at year end. Again, as in the case of net charge-offs, the large percentage of real estate secured obligations in the portfolio, which produce much lower rates of delinquency, prevent Beneficial's consolidated delinquency ratio from being noticeably higher. And, even at the 1981 year-end level, overall delinquency remains at quite manageable levels.

Peoples Bank & Trust Company

Peoples Bank & Trust Company, a wholly-owned subsidiary of Beneficial Corporation, is a state chartered commercial bank based in Wilmington, Delaware. The bank, which operates through seven branch offices, had average assets of over $36 million in 1981. Net operating income increased significantly to $421,000 (a 1.16% return on average assets), up from $224,000 in 1980.

The bank went through a substantial reorganization of its operating systems and procedures in 1981. Staff was expanded, including a strengthening of top management ranks.

While certainly a small institution, even in relation to its local market, Peoples Bank & Trust is an extremely well capitalized, professionally managed, strong commercial bank. It is a valuable asset for Beneficial Corporation in the evolving environment of deregulation of financial services.

Peoples Credit Company

Peoples Credit Company (PCC) is Beneficial's credit card servicing subsidiary. Working in tandem with Peoples Bank & Trust, loan balances generated by the bank's Mastercard and VISA customer base are transferred to Peoples Credit, which now services more than 250,000

Mastercard and VISA customers throughout the United States. Total credit card outstandings of PCC increased to $102.6 million at the end of 1981, up from $91.6 million a year earlier.

Significantly, the effective deregulation of consumer lending rates in Delaware allowed for repricing of Mastercard and VISA fee schedules. Both cards now levy a 19.2% interest rate on loan balances, charge a $1.50 fee for each monthly statement sent, and charge a $15 fee for delinquency. Consumer acceptance of this repricing schedule, which has substantially increased PCC's revenues, has been excellent.

Like Peoples Bank, Peoples Credit also went through a major reorganization in 1981. Improved operating procedures, increased automation, and the addition of several experienced senior managers allowed for nearly a one third reduction in employees.

Given the pricing flexibility inherent in their Delaware location, Peoples Credit, through Peoples Bank, has an excellent opportunity to achieve significant, profitable growth in credit card outstandings in the future.

Leasing & Commercial Finance Group

Beneficial's Leasing and Commercial Finance Group experienced another year of significant growth in 1981 as net lease and commercial finance receivables increased to $232 million from $168 million at the end of 1980.

Beneficial Leasing Group, Inc., the managing subsidiary responsible for Beneficial's overall leasing and commercial finance activities, oversees the individual operating entities.

Beneficial Finance Leasing Corporation engages primarily in the leveraged leasing and commercial financing of transportation equipment including commercial aircraft, railroad cars, locomotives, and container ships. Tax credits generated by equipment leasing activities reduce taxes otherwise payable by Beneficial Corporation. Given Beneficial's current tax position, new leveraged leasing transactions were not pursued in 1981 and will not be pursued in 1982.

Beneficial Commercial Corporation has two divisions. The Equipment Leasing and Finance Division engages in middle market, non-leveraged, non-tax oriented leasing and financing with concentration on the machine tool, agricultural equipment, office machine, and health care equipment markets. Beneficial entered commercial leasing on an exploratory basis, primarily in the health care market, in 1977, and expanded to other markets in 1979. On January 1, 1981, leasing units of Capital Financial Services and Southwestern Investment Company acquired with Beneficial's purchase of these companies in 1979 were merged into the Leasing Division. The Commercial Finance Division provides working capital financing secured by receivables and inventories to manufacturers, distributors and wholesalers. Loans are made directly and in participation with commercial banks. Commercial finance receivables totaled $14.3 million at year end. Commercial finance receivables are generally written on a variable rate basis, at a spread over the bank prime rate, thereby insulating the lender from interest rate risk. Significant growth in commercial finance outstandings is anticipated in future years.

Beneficial Funding Corporation, formed in January 1981, received its license in December 1981 from the Small Business Administration to engage in lending under its small business loan program. Loans approved under this program are insured by the SBA for 90% of principal.

CFG in Perspective

Clearly, the Consumer Finance Group went through a major staff reduction and repositioning of its marketing focus in 1981. In so doing, the number of U.S. consumer finance offices was reduced by 437, or 23%, through office closings and consolidations. This follows a net reduction of 149 United States offices during 1980. Employment in the loan offices was reduced by 22%, to 6,696 at the end of 1981 from 8,638 at the beginning of the year and a peak of just over 10,000 employees at the end of 1979. The Company ceased new lending activities in 12 unattractive states with unreasonable regulation, deteriorating economies and/or limited growth prospects. The supervision structure was also reorganized and streamlined, with the number of U.S. operating departments reduced to 9 from 16 previously. Through these moves overhead expense burdens have been reduced significantly. The CFG emerges a much leaner, stronger entity with its marketing focus and operating procedures centered on the real estate secured loan market.

BENICO

Domestic Companies

The Central National Life Insurance Company of Omaha
American Centennial Insurance Company
Western National Life Insurance Company
Northwestern Security Life Insurance Company
Service General Insurance Company
Guaranteed Equity Life Insurance Company
Guaranty Life Insurance Company of America
FTS Life Insurance Company
Comco, Inc.
Wesco Insurance Company
Petroleum State Insurance Company

Overseas Companies

Beneficial International Insurance Company, Limited
Consolidated Marine & General Insurance Company, Limited
Beneficial American Insurance Company, Limited
Benico Insurance Company of Cayman, Limited
Consolidated Life Assurance Company, Limited

Earned Premiums—Lines of Business

(in millions)

	1981	1980	% Increase (Decrease)
Life	$ 79.7	$ 76.9	3.6%
Annuities	143.3	67.7	111.7
Accident & Health	69.5	70.2	(1.0)
Property & Liability	103.2	95.3	8.3
TOTAL	$395.7	$310.1	27.6%

BENICO, the Beneficial Insurance Group, recorded its tenth consecutive year of record earnings in 1981, as net income increased 6.2% to $63.1 million from $59.5 million in 1980. Earnings growth slowed from the exceptional 35% compound annual rate of the 1971-1980 period reflecting the pure size BENICO has now attained and, importantly, Beneficial's stress on real estate secured loans which, traditionally, have carried lower rates of credit insurance penetration. BENICO's primary thrust continues to be in the highly specialized consumer credit insurance market, where the Group ranks among the industry leaders. BENICO companies also write, both directly and as reinsurers, a wide variety of life, annuity, accident and health and property and liability coverages.

BENICO's written premiums reached $463.9 million, a 4.5% gain over 1980, while earned premiums increased 27.6% to $395.7 million. A breakdown of earned premiums by line of business is presented in the table above.

The particularly significant gain in annuity earned premium reflects annuity reinsurance transactions as well as excellent new business production by BENICO's subsidiary, Western National Life, which is a leader in the individual, tax-deferred and structured annuity market.

Net investment income was particularly strong in 1981, increasing 30.0% to $85.3 million from $65.6 million in 1980. Investment results benefited from strong cash flow and the continuing high level of interest rates. Average gross investment yield increased to 10.11% from 9.05% in 1980, despite the substantial proportion of tax free municipal bonds in the mix. Additionally, realized capital gains, net of applicable taxes, climbed to $3.9 million from $1.2 million in 1980.

The combination of excellent investment income growth and strong earned premium expansion offset some continuing pressure on underwriting spreads experienced in 1981. While both life and annuity loss ratios improved, credit accident and health loss ratios deteriorated. Property and liability loss ratios were also higher reflecting the recently unfavorable state of the industry's traditional underwriting cycle. Commissions and other operating expenses (salaries and benefits, rent, premium taxes, etc.) remained closely controlled, and declined to 23.0% of earned premiums from 27.1% in 1980.

Credit insurance coverages written in connection with loans made by the Beneficial Consumer Finance Group office network continue to represent the largest single source of BENICO's premium income. Total Beneficial-related premium declined for the first time in 1981, but still represented 23% of BENICO's total earned premium, down from 31% in 1980 (see table above). However, Beneficial-related coverages represent a significantly greater percentage of net income because of the marketing savings and general economies of scale inherent in distributing the products through the related Beneficial office network.

Unfortunately, credit insurance penetration rates on large loans, particularly on real estate related obligations, have traditionally been significantly less than on smaller, unsecured loans. Accordingly, Beneficial's radically altered consumer finance strategy to stress real estate secured loans virtually to the exclusion of unsecured lending will have a noticeable dampening effect on BENICO's performance in 1982. While several programs to increase insurance penetration on Beneficial's real estate loans are now being rapidly developed and implemented, their contribution in 1982 will still be relatively small. Over time, BENICO's continuing challenge is to sell an increasing variety of insurance products to the higher-income customer that Beneficial consumer finance operations are now attracting.

To offset the anticipated decline in Beneficial-related premium in 1982, outside business will be pursued aggressively. Obviously, credit insurance written for other consumer lenders is a prime area of development, offering the opportunity to leverage BENICO's established products, management expertise, and market franchise. Consumer loan operations of commercial banks and thrift institutions, as well as smaller finance companies, automobile dealers, and other retailers all represent attractive markets that are being developed. Independent creditor earned premium increased from $25.7 million in 1980 to $32.1 million in 1981, and should be significantly larger in 1982.

Cautious growth will also be pursued in 1982 in the domestic property and liability direct and reinsurance markets, particularly if the recent extreme competitive pressure on premium levels abates. Annuity and specialty ordinary life products will also be marketed aggressively in 1982. Other specialized lines of insurance are also being explored.

Earned Premiums

(in millions)

Year	Beneficial Finance Credit Life	Beneficial Finance Credit A&H	Beneficial Finance Credit Property	All Non-Beneficial Finance	Total
1981	$31.2	$25.8	$32.5	$306.2	$395.7
1980	32.9	33.3	30.0	213.9	310.1
1979	30.8	33.8	23.8	129.1	217.5
1978	29.4	22.4	19.8	77.4	149.0
1977	24.7	20.0	17.0	52.6	114.3
1976	22.2	16.7	14.7	36.7	90.3
1975	18.9	15.6	11.6	23.4	69.5
1974	18.8	12.4	9.5	18.0	58.7
1973	17.0	15.4	2.6	9.7	44.7
1972	15.8	14.1	.8	7.3	38.0
1971	13.3	9.5	—	2.2	25.0

Insurance Investment Portfolio

(in millions)

at December 31	1981	% Total	1980	% Total	1979	% Total
U.S. Government Securities	$150.1	16.0%	$ 97.9	11.5%	$ 63.1	8.3%
Municipal Bonds	310.0	33.0	298.7	35.1	274.0	36.1
Foreign Government and Agency Obligations	37.7	4.0	41.2	4.8	42.0	5.5
Corporate Bonds	151.1	16.1	147.0	17.3	151.7	20.0
Preferred Stocks	45.5	4.8	52.0	6.1	53.7	7.1
Common Stocks	42.3	4.5	43.0	5.1	28.7	3.8
Policy Loans	14.5	1.5	13.1	1.5	12.0	1.6
Mortgages	92.6	9.9	83.0	9.8	81.9	10.8
Real Estate	10.6	1.1	9.1	1.1	8.7	1.1
Short-Term Holdings*	85.4	9.1	65.3	7.7	43.2	5.7
Total	$939.8	100.0%	$850.3	100.0%	$759.0	100.0%

*Chiefly commercial paper and certificates of deposit.

For the first time in its history BENICO paid substantial cash dividends upstream to its parent, Beneficial Corporation, in 1981. A total of $32.4 million in dividends were paid, a pay-out ratio of 51% of BENICO's net income for the year. It is anticipated that, in the future, BENICO will maintain a regular policy of significant cash dividends to Beneficial. This policy reflects BENICO's exceptionally well capitalized financial structure and the slowing of growth potential for the Insurance Group from the exceptional rate of the past decade.

BENICO's insurance-related shareholder's equity increased to $383.0 million from $356.7 million at the end of 1980. While BENICO's rather unique mix of product lines makes comparative analysis difficult, the ratio of premiums written to average net worth of only 1.21 appears particularly strong by analytical benchmarks. Traditionally, property and casualty companies have been able to sustain such ratios of at least 3 to 1, while credit insurance companies, BENICO's major business, have generally operated at ratios substantially higher, occasionally at 5 to 1 or more.

BENICO's net worth and policy reserves are prudently invested, as investment activities continue to follow a quite conservative strategy. While each company in the Group has slightly different investment needs, the overall portfolio is predominantly invested in high quality fixed-income obligations. As indicated in the breakdown of the portfolio in the table above, 1981 saw a sharp increase in U.S. Government Securities—both direct issues of the Treasury and high-yielding issues of U.S. Government Agencies (GNMA, FHLMC, SBA, FmHA) carrying either the explicit or implicit guaranty of the U.S. Government. In addition, a high degree of liquidity in short-term investments was maintained.

1982 will be a year of transition for BENICO, as it continues its adjustment to the revised strategy of the Consumer Finance Group. Accordingly, Insurance Group earnings are expected to be little better than flat in 1982.

First Texas Financial Corporation

Thrift institutions in the United States suffered through perhaps the worst year in the industry's history in 1981. Captive of their still largely fixed-rate asset base, the industry was ill-prepared to weather the combination of skyrocketing interest rates and extremely severe competition from money market funds and other competing vehicles for the savings dollar. Over the past few years, gradual deregulation of deposit products has taken place with virtually a stroke of Washington's pen—providing a windfall for savers but severely wounding the thrift industry which has for decades financed the American Dream of home ownership with long-term fixed-rate mortgages.

In this extremely difficult environment, First Texas reported a 1981 net loss of $24.5 million, compared to a net loss of $0.8 million in 1980. Including non-cash, purchase accounting credits to income of $3.2 million in 1981 and $3.9 million in 1980, First Texas contributed a $21.3 million net loss to Beneficial's results in 1981 compared to a net earnings contribution of $3.1 million in 1980.

First Texas's basic problem is the negative spread on funding its $1.6 billion mortgage loan portfolio. As illustrated in the table above, the negative spread widened through the year before narrowing slightly at year-end because of the fourth quarter's significant drop in interest rates from their August peaks. First Texas enjoys the benefits of lower interest rates only with a noticeable lag, since the largest portion of the deposit base is in term certificates that obviously do not roll over immediately. At the end of 1981 money market certificates tied to interest rates on U.S. Treasury securities accounted for approximately 65% of First Texas' savings base, with 40% in six-month certificates and 25% in thirty-month certificates.

Top management of First Texas changed in 1981. Roger J. Keane, Chairman of the Board, retired after 27 years of outstanding service. In preparation for Mr. Keane's retirement, J. Michael Cornwall, 46, assumed the title of Chief Executive Officer in April. Mike Cornwall has 22 years service with First Texas and had most recently served as President and Chief Operating Officer. Robin R. Glackin, 36, assumed the Presidency on January 1, 1982. Glackin came to First Texas in September from Citicorp, where he had been Vice President in charge of Citibank's 53 branch offices in the borough of Queens, New York.

FIRST TEXAS FINANCIAL CORPORATION—SPREAD DATA

	Loan Portfolio-Average Rate	Overall Cost of Funds	Spread
December 31, 1979	9.14%	8.42%	+0.72%
March 31, 1980	9.38	9.69	−0.31
June 30, 1980	9.54	10.09	−0.55
September 30, 1980	9.65	9.36	+0.29
December 31, 1980	9.86	9.91	−0.05
March 31, 1981	10.20	10.83	−0.63
June 30, 1981	10.31	11.71	−1.40
September 30, 1981	10.43	12.68	−2.25
December 31, 1981	10.52	12.60	−2.08

Importantly aided by the addition of $55.8 million in All-Savers tax-free certificates, First Texas enjoyed reasonably good net deposit growth of $69.3 million during the fourth quarter of the year. New deposit growth will be pursued actively in 1982. Special marketing programs will center on the attraction of All-Savers and Individual Retirement Account deposits. Clearly, new deposit growth is key to profitability in the thrift industry since new funds are profitable even at today's high cost because the return on new loans and investments is even greater. One might observe that the savings and loan industry is still a wonderful, high-return business—if you are entering it presently with a clean slate. The problems arise from having been in the business in the past.

First Texas both expanded and pruned its branch network in 1981 to optimally position the institution to take full advantage of the continuing excellent growth expected for the Texas economy in the 1980's. Significant expansion came with the completion, in April 1981, of the acquisition of Centennial Holding Company, parent company for the 15-branch Centennial Savings Association chain. This acquisition, negotiations for which were completed during 1980, gives First Texas a presence in the three major market areas of Beaumont, Temple, and Amarillo. Also during 1981 First Texas sold three unprofitable branches in isolated markets with limited growth potential. Five other unprofitable branches with limited potential were closed with customer deposits consolidated into nearby branch offices. Improved operating efficiencies through increased centralization and selective pruning of the branch network will be pursued in 1982.

As this report goes to press it seems virtually certain that First Texas will record another very substantial net loss in 1982. Unfortunately, the damage done to spreads in 1981 by skyrocketing interest rates was far too great to be cured this year. Hopefully, First Texas and the rest of the thrift industry will return to profitability in the near future. Needless to say, the future course of interest rates is the key fundamental variable, and the major imponderable.

What is clear is that First Texas Financial Corporation enters 1982 with a highly capable, vigorous management team operating a well-positioned branch network in perhaps the most attractive state in the country. To the degree health returns to the thrift industry in the United States (which seems highly likely at some point), First Texas should participate more than commensurately.

Western Auto Supply Company

Western Auto Supply Company experienced a strong resurgence in profitability in 1981 as net income advanced to $12.0 million from $4.8 million in 1980. As was the case in 1980, the earnings gain stemmed mainly from significant improvement in operating expense ratios. An aggressive cost-cutting program brought about substantial increases in operating efficiency. Subsidiary corporations Midland International and Eva Gabor International were important contributors to the profit improvement.

Consolidated net sales and other revenue declined 3.6% to $645.7 million from $669.5 million in 1980. The sales decline was a product of both sluggish demand for big ticket merchandise and a reduction in the number of stores as marginal outlets were closed. Total retail merchandise sales fell 3.4% to $153.6 million as the number of company-owned stores declined from 273 at the beginning of the year to 263 at December 31. Similarly, wholesale merchandise sales declined 4.9% to $407.4 million as the number of active dealers was reduced to 2,701 from 2,949 at the end of 1980. In addition, Midland International revenues declined 14.7% as the distribution of television sets was selectively reduced.

The major challenge for Western in 1982 and the future is to increase sales revenues. Key to achieving that goal is the reestablishment of a strong merchandising identity and focus for the company. Measurable progress was made towards that key strategic objective in 1981. Last year's annual report referred to the test of a new, well-defined marketing concept—selling to the automotive aftermarket. In March the company celebrated the grand reopening of 13 Kansas City area stores—redesigned and remerchandised to center on a supermarket concept for automotive supplies and service. Highly enthusiastic consumer response to the concept led to the conversion of 30 additional company-owned stores during 1981, with plans to convert more in 1982. Consumer expenditures for automotive aftermarket products and services in the United States are estimated at $45 billion, and spending patterns are changing rapidly. While there is active competition, the retail market is highly fragmented and vulnerable. The market would appear to represent an enormous opportunity for Western Auto. The conversion of company-owned stores to an automotive thrust is expected to correct the long-term illness of the 250 stores located in large, urban markets.

The automotive concept is also expected to be gradually introduced into the dealer stores through the addition of strongly-positioned automotive merchandise lines. However, a much broader array of merchandise other than automotive products will continue to be sold to the independent dealer network. Generally, the associate stores are located in more rural, less-competitive areas, where the dealer can profitably market many more categories of merchandise. It appears that the prototype dealer store of the future will continue to be a general merchandise store, but with a strong customer draw built on automotive lines.

1981 was a year of substantial progress for Western Auto, and the company enters 1982 as a leaner, significantly stronger company than it has been in many years. Planning procedures have been markedly improved and the company now functions with both detailed financial and operating plans. Accountability and performance measurement is implemented through a widely-applied management by objectives (MBO) process. In short, Western Auto has become a professionally managed merchandiser.

To be sure, professional management is an essential ingredient to the successful repositioning of this company for the 1980's. Once lost, the reestablishment of strong merchandising identity for any marketer is a challenging task. But Western Auto is well on the road to it. While current economic conditions are not helpful, management expects to improve earnings in 1982.

Cecil M. Benadom (1,3)
Retired; former President of Beneficial Corporation

Charles W. Bower (1,2)
Retired; former Senior Vice President and Treasurer of Beneficial Corporation

Robert C. Cannada (3,4)
Attorney at Law, Butler, Snow, O'Mara, Stevens & Company, Jackson, Mississippi

Elbert N. Carvel
Vice Chairman of the Board of Trustees of the University of Delaware; Chairman of the Board of Peoples Bank and Trust Company, a subsidiary

Finn M. W. Caspersen (1,2,5)
Chairman of the Board of Directors and Chief Executive Officer

Freda R. Caspersen
Chairman of the Board of Directors of Westby Corporation, real estate investments, Wilmington, Delaware

George R. Evans (1,2,5)
Retired; former Vice Chairman of Beneficial Corporation

Gerald L. Holm (1,5)
Vice Chairman

R. Donald Quackenbush
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Directors Emeriti
Thomas W. Cullen
J. Thomas Gurney
Modie J. Spiegel
Ralph B. Williams

(1) Member of Executive Committee (Finn M.W. Caspersen, Chairman)
(2) Member of Finance Committee (Robert A. Tucker, Chairman)
(3) Member of Audit Committee (Charles H. Watts, II, Chairman)
(4) Member of Compensation Committee (K. Martin Worthy, Chairman)
(5) Member of Strategic Planning and Evaluation Committee (Finn M.W. Caspersen, Chairman)

Senior Management Group

David J. Farris
Chairman of the Senior Management Group

Paul M. Finfer
President—Beneficial Leasing Group, Inc.

Robert P. Freeman
Senior Vice President—Personnel*

Robert E. Gaegler
President—Benico, Inc.

Robert M. Grohol
Senior Vice President—Operating*

William A. Gross
Senior Vice President—Taxes and Accounting Policy

Kostas Gussis
Senior Vice President—Audit

Andrew C. Halvorsen
Senior Vice President—Finance

Charles E. Hance
Senior Vice President—Legal and Litigation*

James T. Kearns
Executive Vice President—Benico, Inc.

J. Edward Kerwan
President—Beneficial Data Processing Corporation

Thomas P. McGough
Vice President—Financial Controls*

Robert R. Meyer
Vice President and Controller

W. James Murphy
Senior Vice President—Operating*

Clifford W. Snyder
Senior Vice President—Advertising and Press Relations*

Robert E. Styles
Senior Vice President—Operating*

David B. Ward
Senior Vice President—Government Relations*

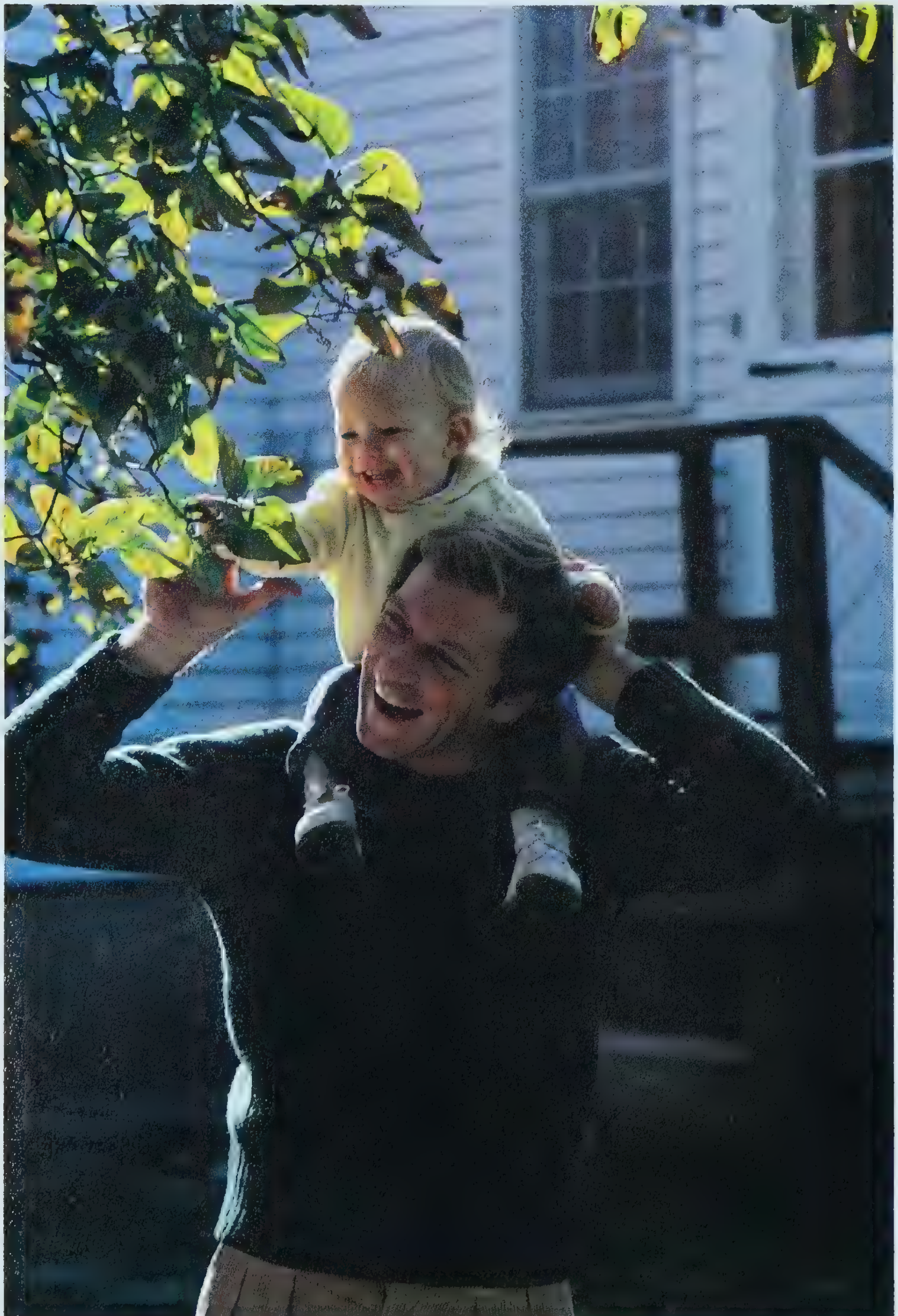
**Beneficial Management Corporation*

The Compelling Logic of a Second Mortgage

The Story of a Loan

Profile of a Borrower

Today's homeowners are a different breed of borrower. They are more conservative. They are more apt to reshape a present home than to "trade up."



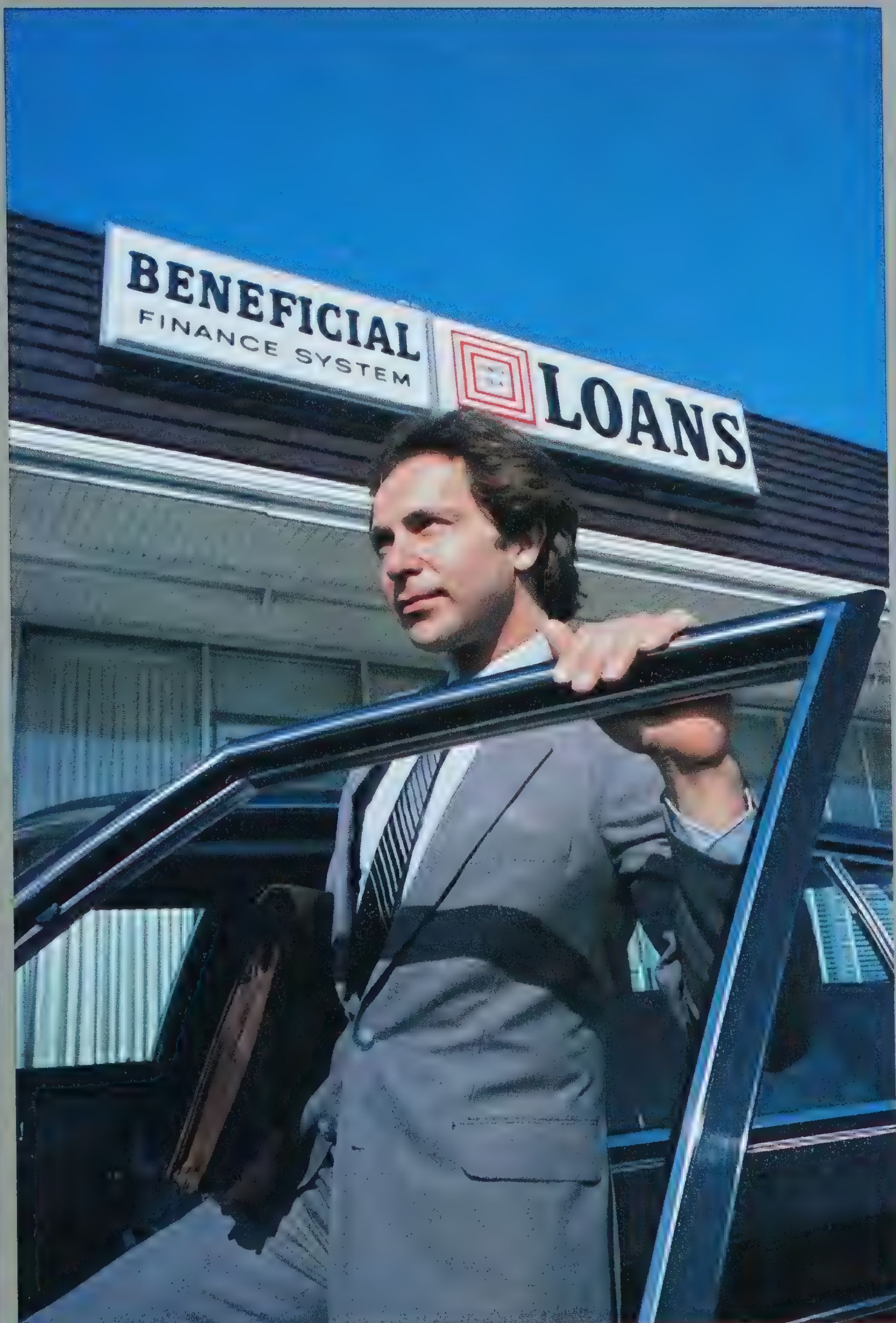
Homeowners are now a major economic force, and of America's 86 million houses (worth more than $1.6 trillion), 56 million are owned by those who live in them.

This has all come about in a relatively few decades. In 1981, 84 percent of families earning more than $20,000 a year owned their homes.

Inflation-conscious Americans travel less and nearer home, and are more thoughtful about getting the most for their dollar. They have more circumscribed life-styles, tend to be more conservative, more thoughtful in planning, and more inclined to capitalize on present assets.

As Americans joined the "owner class," most continued to think of their homes as a place to live, but starting around 1970 homeowners realized that their homes were something more: the equity was a form of "savings" that could be released by a second mortgage loan. For most homeowners, the equity built up in their houses forms the largest pool of savings they have. Homeowner loans based on this equity have become the primary instrument for many Americans to realize important plans and goals.

Second mortgages have reshaped the lending market. Beneficial has positioned itself to serve this market competitively, and has become a leading source of second mortgage credit.



The goal of federal legislation in the 1930's carried through the "Fannie and Ginnie Maes" of the 60's was to give Americans the chance to realize the dream of owning their own home. Today the value of these owner-occupied homes rivals the total value of all U.S. stocks and bonds.

California led the way a decade ago with second mortgage legislation, with similar legislation following America's population shifts West and South. These laws give lenders the ability and incentive to lend in ways that allow borrowers to take advantage of the equity built up in their homes.

Beneficial has positioned itself to serve this broad international market of homeowners competitively with speed and flexibility. Over 45% of the portfolio today is in second mortgage receivables. Homeowners in eight countries on four continents have selected Beneficial for more than $2.0 billion in homeowner loans.

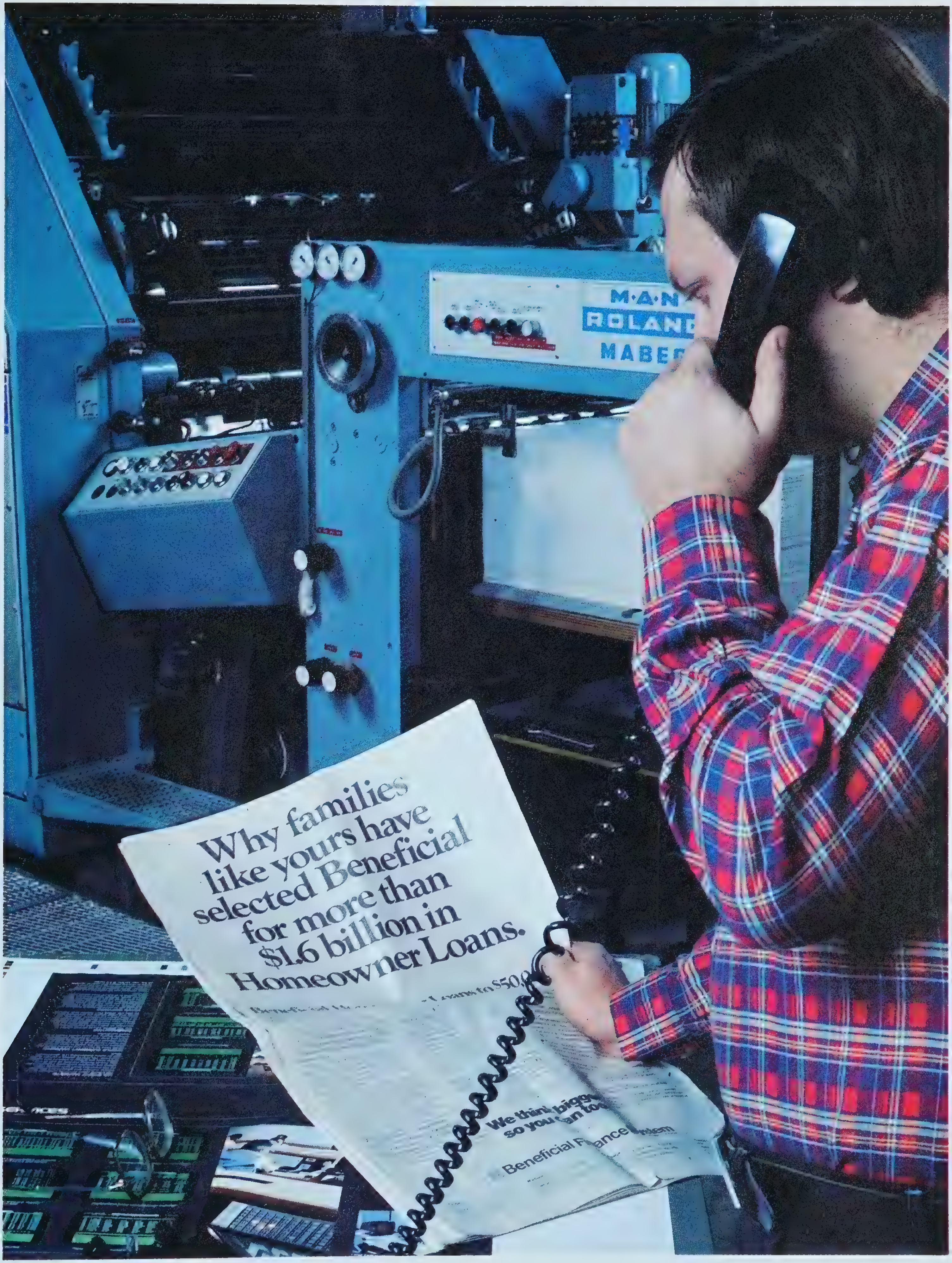
The Benefit of Borrowing

The ability to plan and organize for the future, a distinguishing characteristic of businesses and the wealthy, is an ability now being learned by a greater number of people every year.

Peter Drucker summed up the idea when he wrote, "Long-range planning does not deal with future decisions, but with the future of present decisions."

Borrowers today come to the lender better informed to evaluate what the lender is offering and the long-range effects. They come equipped to analyze tax aspects and inflation factors. They compare the costs of a second mortgage to the costs of refinancing and are reluctant to sacrifice a favorable present mortgage. Usually, a second mortgage loan is less costly by a significant amount than refinancing the existing first mortgage.

Increased sophistication is what distinguishes today's borrowers from past peers.


M·A·N
ROLAND
Why families like yours have selected Beneficial for more than $1.6 billion in Homeowner Loans.
Beneficial Finance System

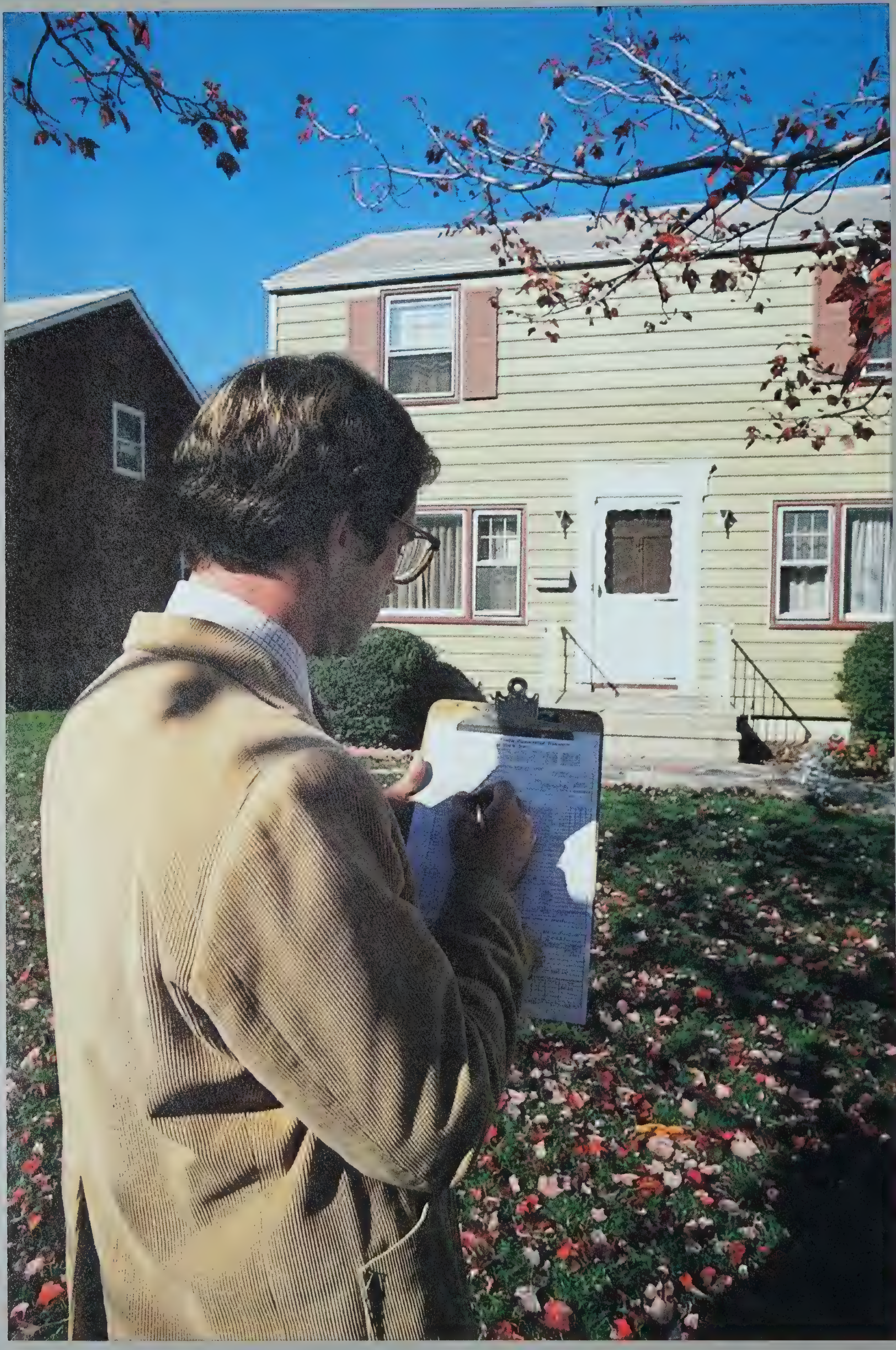
How Money Gets an Education

Beneficial believes that the borrower is well served only when, as preparation for a substantial loan, an in-depth review of the homeowner's financial picture as well as short- and long-term goals is made.

Beneficial believes those who seek loans should seek not only money, but lenders who will be equally sensitive in understanding their real—and best—interests.

The best lenders will sit down with the borrower and share in the assessment of why the loan is being sought and how that loan can supply what is wanted. Borrowers should have the opportunity to exploit the lender's long experience. Both borrower and lender are required to be candid and flexible, so that the loan can be accurately shaped to serve both.

Basic questions should be answered during the exchange. Does the present equity in the home, plus the amount desired, afford both borrower and lender financial comfort? What is the borrower's choice of term and payment plan? Would consolidation to finance both the purpose of the loan and other obligations make for more convenient payments and perhaps overall interest cost savings to the borrower? Would the borrower like to protect the obligation with credit insurance coverage?



Beneficial Pictures the Loan

When the borrower and lender have agreed to the basic amount and structure of the loan, a professional, independent appraiser verifies condition and value of the house. Simultaneously, credit history and employment are researched and verified. A full record of the data is entered in Beneficial's central computers, which perform calculations, incorporate adjustments for various state or country regulations, and finally prepare loan documents over the office terminal for customer signatures.

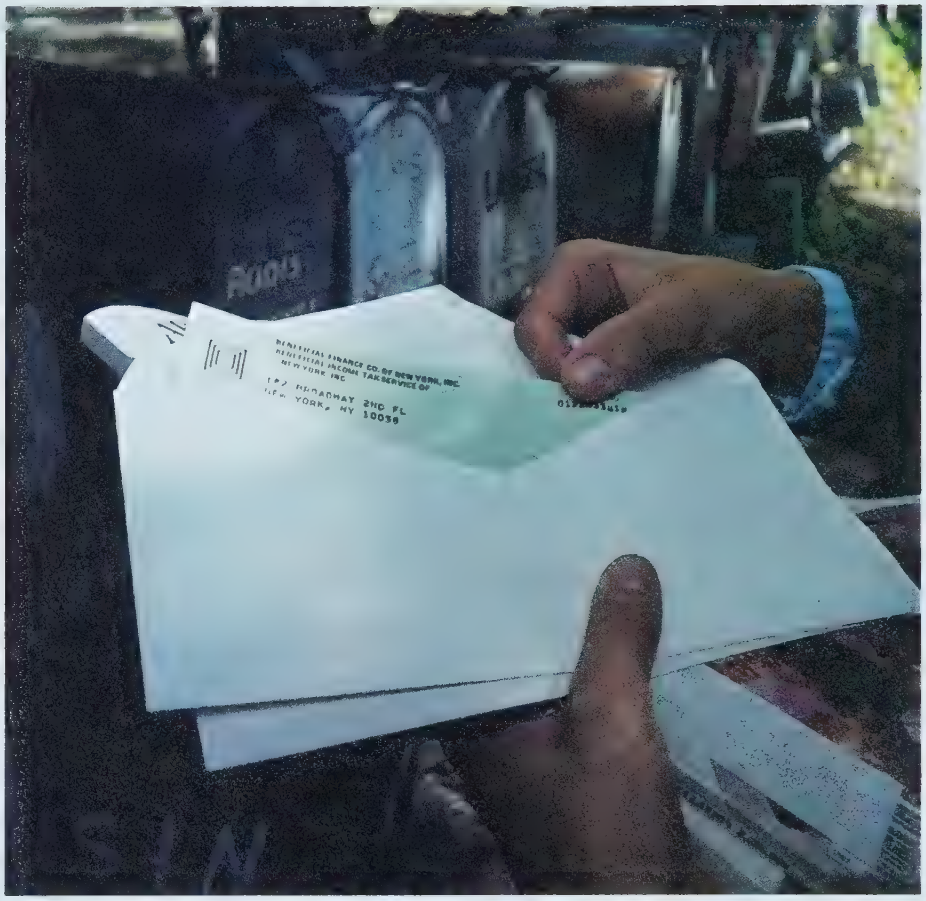
The Dream Begins

A single visit to a Beneficial office can usually provide 48-hour confirmation of eligibility.

Adding a room, remodeling, investment, home improvement, education...dreams are as different as borrowers. Plans that hinge on the assurance of a loan can now go forward. Rapid approval assures Beneficial's reputation for speedy assistance.

Beneficial's responsiveness builds trust. The Company can move from application to cash in your hands in as few as five working days.

The Family Realizes Its Plans



With final approval, the check is issued and a borrower-lender relationship is begun which may last for as little as one year to as many as fifteen. The borrower receives monthly coupons. After the final payment, all loan documents are marked paid in full and returned to the borrower with our thanks.

Beneficial: Lender of First Resort

For most of its history, the Beneficial office has been as familiar on the American landscape as Coke and Pepsi.

In the past few decades, government policy has altered that landscape, making Americans a nation of homeowners. Beneficial today fits appropriately into this new economic landscape, having reshaped itself into one of the nation's lenders of first resort. Because it had learned early to make loans quickly to serve borrowers often in extreme need, Beneficial continues to be a lender of "fast resort." The Company has served generations of Americans and has earned a positive position of familiarity as a prime source of credit.

Beneficial's new organization is shaped to recognize America's new fiscal geography. As a major participant in the second mortgage market, it aims to retain and enlarge its position as a significant, trusted, accessible lender.


Total Real Estate Secured Loans
(in millions of dollars)
33
45
55
117
176
225
354
488
831
1,470
2,035
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981

32

Beneficial Corporation and Consolidated Subsidiaries
Balance Sheet

(in millions) December 31	1981	1980
Assets		
Cash (Note 4)	$ 49.7	$ 55.2
Finance Receivables (Note 5)	4,916.5	4,763.1
Less Unearned Finance Charges	(470.7)	(510.2)
Principal of Finance Receivables	4,445.8	4,252.9
Less: Reserve for Credit Losses	(196.5)	(194.8)
Insurance Policy and Claim Reserves Applicable to Finance Receivables	(141.9)	(139.2)
Net Finance Receivables	4,107.4	3,918.9
Net Receivables Acquired from Western Auto (Note 6)	123.6	118.3
Investments (Note 7)	1,104.4	1,015.2
Equity in Net Assets of Non-Consolidated Subsidiaries		
Savings and Loan Division (Note 19 and Page 52)	59.1	60.1
Merchandising Division (Page 61)	195.4	188.4
Other	5.1	6.6
	259.6	255.1
Investments in and Advances to Discontinued Operations (Note 3)	102.9	160.3
Property and Equipment (at cost, less accumulated depreciation of $27.3 and $31.4)	197.6	132.0
Other Assets (Note 8)	395.0	376.4
Total	$6,340.2	$6,031.4
Liabilities and Shareholders' Equity		
Short-Term Debt (Note 9)		
U.S. Currency	$ 944.4	$ 669.0
Foreign Currency	184.5	145.4
	1,128.9	814.4
Deposits Payable	96.4	94.0
Accounts Payable and Accrued Liabilities (Note 10)	273.8	289.0
Insurance Policy and Claim Reserves (applicable to risks other than finance receivables)	480.3	418.3
Long-Term Debt (Note 11)	3,357.3	3,336.0
Total Liabilities	5,336.7	4,951.7
Redeemable Preferred Stock (Note 13)	125.0	125.0
Other Preferred Stock (Note 12)	116.2	116.4
Common Stock (60.0 shares authorized, 22.2 and 22.2 shares issued and outstanding) (Note 12)	22.2	22.2
Additional Paid-in Capital (Note 11)	62.4	62.0
Net Unrealized Loss on Equity Securities (Note 7)	(25.4)	(17.7)
Retained Earnings (Note 11)	703.1	771.8
Total	$6,340.2	$6,031.4

See Notes to Financial Statements.

Beneficial Corporation and Consolidated Subsidiaries
Statement of Income and Retained Earnings

(Unaudited) Three Months Ended December 31 1981	1980	(in millions)	Years Ended December 31 1981	1980	1979
		Finance Division			
$391.4	$337.3	**Revenue**	$1,466.1	$1,323.2	$982.9
		Expenses			
120.6	102.1	Interest (Notes 1f and 20)	458.7	395.4	243.8
47.7	50.1	Salaries and Employee Benefits	206.0	203.9	166.1
32.7	31.8	Provision for Credit Losses (less recoveries)	108.3	107.2	102.4
98.0	63.6	Insurance Benefits Provided	327.2	228.1	136.0
57.3	58.5	Other	254.8	232.1	179.8
356.3	306.1	Total	1,355.0	1,166.7	828.1
35.1	31.2	**Operating Income**	111.1	156.5	154.8
—	—	Provision for Restructuring Costs (Note 15)	(8.4)	—	—
—	(.8)	Foreign Exchange Gain (Loss) (Note 1e)	(3.2)	(2.0)	.6
35.1	30.4	**Income Before Income Taxes**	99.5	154.5	155.4
12.2	7.7	Provision for Income Taxes (Note 16)	37.6	53.9	56.6
22.9	22.7	**Income From Finance Division**	61.9	100.6	98.8
(14.4)	1.6	**Income (Loss) From Savings and Loan Division** (Note 19)	(21.3)	3.1	12.6
2.7	2.1	**Income (Loss) From Merchandising Division**	12.0	4.8	(4.6)
(3.6)	(2.8)	Interest Expense, After Income Taxes, Related to Investment in Non-Consolidated Subsidiaries (Notes 1f and 20)	(13.7)	(10.4)	(10.3)
7.6	23.6	**Income From Continuing Operations**	38.9	98.1	96.5
		Discontinued Operations, After Income Taxes (Note 3)			
—	4.5	Income (Loss)	(.5)	.8	8.1
(.9)	(1.3)	Interest Expense Related to Investment	(5.4)	(5.1)	(4.3)
—	—	Loss on Disposal	(40.7)	—	—
(.9)	3.2		(46.6)	(4.3)	3.8
6.7	26.8	**Net Income (Loss)**	(7.7)	93.8	100.3
711.1	759.7	**Retained Earnings, Beginning of Period**	771.8	738.8	692.9
—	—	Cumulative effect of change in accounting principle (Note 2)	—	—	(3.6)
711.1	759.7	**Retained Earnings, Beginning of Period, as restated**	771.8	738.8	689.3
14.7	14.7	Dividends	61.0	60.8	50.8
$703.1	$771.8	**Retained Earnings, End of Period**	$ 703.1	$ 771.8	$738.8
		Earnings Per Common Share (Note 18)			
$ .14	$ .87	Continuing Operations	$ .97	$ 3.63	$ 4.04
(.03)	.14	Discontinued Operations	(2.08)	(.19)	.17
$ .11	$ 1.01	Net Income (Loss)	$ (1.11)	$ 3.44	$ 4.21
$ 2.5	$ 22.6	Earnings (Loss) Available for Common Stock	$ (24.7)	$ 76.7	$ 93.5
22.3	22.3	Average Outstanding Shares	22.3	22.3	22.2
$ .50	$ .50	**Dividends Per Common Share**	$ 2.00	$ 2.00	$ 1.95

See Notes to Financial Statements.

Introduction

The year 1979 was a period of rapid growth for Beneficial Corporation. During this year assets grew from $3.9 billion to $6.0 billion. Principal of finance receivables expanded from $3,015.4 million to $4,264.0 million. The acquisitions of Capital Finance Services, Inc. and Southwestern Investment Company in mid-December 1979 contributed significantly to this growth. The Company also acquired several insurance companies which contributed to the expansion of the Insurance Group.
The completion of the acquisition of First Texas Financial Corporation in 1979 resulted in the formation of the Savings and Loan Division.

The year 1980 was a period of consolidation for the Company's finance operation. Due to the new Federal Bankruptcy Act which became effective in late 1979, management adopted a policy of reducing the number of smaller unsecured loans and increasing its investment in larger, more profitable real estate secured loans. As a result, the total principal amount of finance receivables outstanding declined slightly during the year, despite an increase of $639 million in real estate secured loans, which represented approximately 35% of total principal of receivables at December 31, 1980.

The year 1981 reflected the continuing emphasis on the contraction of the smaller unsecured loans coupled with tighter expense control. Over 450 loan offices were closed or consolidated during the year. New lending operations were effectively ceased in twelve unattractive states while remaining operations in two other states were sold. Real estate secured loans continued to grow, increasing $565 million during the year, and accounted for 46% of total principal of receivables at December 31, 1981. Results for 1981 were adversely affected by the $40.7 million loss on the sale of Spiegel, Inc., a merchandising subsidiary and by an $8.4 million pretax provision for restructuring costs related to the office closings and sale of operations discussed above.

Results of Operations

Finance Division revenue has increased substantially in the last three years. Both the Consumer Finance Group and the Insurance Group have contributed to this increase. The increase in consumer finance revenue is almost entirely attributable to higher average finance receivables. Insurance premiums earned increased 28%, 43% and 46% in 1981, 1980 and 1979 compared with each preceding year. Gains in insurance premiums earned came from both the Consumer Finance Group and non-affiliated sources. Non-affiliated business grew to approximately 80% of total premiums written in 1981 versus 78% and 60% in 1980 and 1979, respectively. Contributing to these increases were the acquisitions of Northwestern Security Life Insurance Company and the insurance subsidiaries of Capital and Southwestern Investment in December 1979. Insurance investment income was $85.3 million, $65.6 million and $31.9 million in 1981, 1980 and 1979, respectively. The increasing trend is due to higher levels of investments at increased rates of return.

Interest expense increased 16%, 62% and 50% in 1981, 1980 and 1979, respectively. Approximately 74% and 75% of these increases in 1980 and 1979 were due to additional borrowings with the remainder due to higher rates. In 1981, however, additional borrowings accounted for only 8% of the increase while high interest rates accounted for the remaining 92%. Thus it is quite apparent that high interest rates were a major fundamental factor impeding operating results in 1981. Lending spreads for the year were severely impacted as the overall interest rate on borrowings increased to 11.53% from 10.16% in 1980 and 8.89% in 1979.

The provision for credit losses remained substantially the same in 1981 and 1980 as compared to each preceding year, reflecting the shift to real estate secured loans, after increasing 44% in 1979 over 1978. Charge-offs as a percentage of finance receivables were 2.17%, 2.34% and 1.87% in 1981, 1980 and 1979, respectively. The decline in charge-offs in 1981 resulted from lower credit losses inherent in real estate secured loans as well as a decline in bankruptcy charge-offs. The increase in charge-offs in 1980 reflected increased consumer bankruptcies under the new Federal Bankruptcy Act effective in late 1979. The percentage of loan balances more than two months delinquent was 1.54% at December 31, 1981, down slightly from 1.55% at the end of 1980 but higher than 1.26% at year-end 1979. Delinquency on real estate secured loans is substantially lower than on unsecured loans. It is anticipated that, as the percent of real estate loans to total loans grow, barring severe economic dislocations, lower overall credit losses will result.

Insurance benefits provided increased 43%, 68% and 57% in 1981, 1980 and 1979 over each preceding year. These increases reflect the growing volume of business and moderately higher loss ratios, as well as a larger portion of annuity business, which requires substantially higher reserves.

In 1981, the Company provided $7.2 million for employee severance costs relating to the restructuring of operating departments and headquarters operations resulting from the closing of approximately 450 consumer finance offices and $1.2 million for the loss on the sale of lending operations in Alabama and Tennessee.

The provision for income taxes represented 37.8%, 34.9% and 36.4% of Finance Division income before taxes in 1981, 1980 and 1979, respectively. Each percentage is lower than the expected tax rate of 46% principally because the income of the insurance operations is taxed at lower effective tax rates as discussed in Note 16 on page 43.

Income from the Finance Division for the two years 1980 and 1979 was relatively flat, but declined to $61.9 million during 1981, a decrease of 38.5% from 1980. The higher cost of borrowing and the provision for restructuring costs discussed above were primarily responsible for the decline in net income of the Consumer Finance Group from $50.2 million in 1980 to $11.1 million in 1981. Net income of the Insurance Group increased from $50.4 million in 1979 to $59.5 million in 1980 and to $63.1 million in 1981.

Income from the Savings and Loan Division, after purchase accounting adjustments, decreased from a profit of $12.6 million in 1979, to a profit of $3.1 million in 1980, and to a loss of $21.3 million in 1981. Although revenues have increased in each of the last three years, the difference between the yield on the loan portfolio and the interest rate on funds borrowed by the Division has deteriorated from a positive spread of .72% at the end of 1979 to a negative spread of 2.08% in 1981.

The Merchandising Division incurred a loss of $4.6 million in 1979 but produced income of $4.8 million in 1980 and $12.0 million in 1981. Reductions in variable costs and salary expense more than offset declining sales during the three years ended December 31, 1981.

Capital Resources and Liquidity

Principal collections of finance receivables from customers is the Company's major internal source of funds. As a percentage of average monthly balances, cash principal collections have reflected the trend to longer contractual maturities resulting primarily from the higher proportion of real estate secured loans. The percentage of cash principal collections was 3.85% for 1981, 4.01% for 1980 and 4.37% for 1979. Due to these ongoing collections, the ability to cut back lending activity when necessary, and substantial access to worldwide credit sources, liquidity does not present a problem for the Company.

Short-term debt is used to provide flexibility to finance operations on a day-to-day basis and as a buffer during periods when receivables contract and expand. Total short-term debt was 25% of total debt at December 31, 1981 and 20% and 23% at the end of 1980 and 1979, respectively. The increase in short-term debt in 1981 resulted from growth in receivables and additions to property and equipment relating to the construction of two new office complexes discussed below. Commercial paper and bank lines of credit represent the primary source of short-term funds for the Company. The Company maintains unused bank line coverage equal to at least 100% of commercial paper obligations. At December 31, 1981 the unused portion of bank lines of credit was $529.0 million, 109% of commercial paper outstanding.

The Company generally relies heavily on the issuance of long-term debt to finance its operations. The strategy has been to fund growth with long-term debt to the extent practicable in both domestic and foreign operations. One of the Company's financial strengths is its ability to raise long-term debt in a wide variety of domestic and international markets at the longest terms available to finance companies. Management closely monitors the long-term market with the intention of rolling over short-term debt into long-term debt.

The Company's debt to equity (including redeemable preferred stock) ratio was 4.47 to 1 at December 31, 1981, 3.83 to 1 at December 31, 1980, and 4.16 to 1 at December 31, 1979. The principal reasons for the high leverage in 1979 were internal growth and acquisitions. During 1980 the Company reduced its leverage largely by increasing retained earnings and by selling 138 of the former offices of Capital and Southwestern for approximately $190 million. In 1981 the higher leverage resulted from increased borrowings to support increased finance receivables, particularly in real estate secured loans. The 1981 ratio was also adversely impacted by the reduction in retained earnings resulting from the sale of Spiegel.

Due to the rise in interest rates and the increased leverage during the three-year period ending December 31, 1981, the ratio of earnings to fixed charges (based on income from continuing operations) went from 1.73 to 1 in 1979, to 1.30 to 1 in 1980 and to 1.17 to 1 in 1981. Continued emphasis on expense control, the switch in the mix of the receivable portfolio toward larger, real estate secured loans, and the continued raising of interest rates by state regulatory agencies on loans made by the Company are all expected to contribute to improved fixed charge coverage.

Long-term debt of $94.7 million will mature during 1982. These maturities are expected to be financed through the wide variety of markets available to the Company. The Company's access to short-term debt through the issuance of commercial paper on a direct placement basis and the unused portion of the bank lines of credit will continue to make short-term funds available.

The Company has other commitments arising from the continuing construction of two office complexes for occupancy by the Company in 1982. The expected cash needed to complete these complexes is $33 million, which will be financed initially through general funds available to the Company.

The Savings and Loan Division finances its operations mainly through savings accounts, loan principal repayments and advances from the Federal Home Loan Bank.

The Merchandising Division finances its operations largely through the sale of consumer receivables to Beneficial, receivables collections and its own cash flow.

Further information on the Finance Division is in the Financing section on Page 5, the Consumer Finance Group section on Page 6, and the BENICO section on Page 11.

Management's Discussion of Supplementary Financial Data Adjusted for General Inflation is on Page 49 with the related data on Page 48.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Savings and Loan Division is on Page 54 and for the Merchandising Division is on Page 63.

Beneficial Corporation and Consolidated Subsidiaries

Statement of Changes in Financial Position

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1981	1980	(in millions)	1981	1980	1979
		Source of Funds			
		Operations			
$ 7.6	$ 23.6	Income From Continuing Operations	$ 38.9	$ 98.1	$ 96.5
		Non-Cash Charges (Credits) to Income			
36.5	34.4	Provision for Credit Losses (before recoveries)	121.6	117.1	110.9
(12.2)	(11.9)	Increase (Decrease) in Unpaid Expenses	24.0	19.2	20.8
3.7	26.5	Increase in Insurance Reserves	64.7	44.5	58.8
8.1	5.8	Depreciation, Amortization, and Other	27.0	22.4	13.4
3.1	.3	Unrealized Foreign Exchange Loss (Gain)	5.6	1.1	(1.7)
24.9	47.3	Provision for Deferred Income Taxes	42.5	39.4	7.8
18.2	(1.5)	Undistributed Net Loss (Income) of Non-Consolidated Subsidiaries	16.0	(5.9)	(9.0)
89.9	124.5	Funds Provided by Continuing Operations	340.3	335.9	297.5
9.8	11.0	Decrease (Increase) in Investments in and Advances to Discontinued Operations	57.4	28.1	(19.2)
—	189.8	Proceeds From Divestiture of Offices	—	189.8	—
(111.9)	(150.6)	Increase (Decrease) in Short-Term Debt	315.7	(160.1)	160.8
—	—	Redeemable Preferred Stock Issued	—	22.0	103.0
55.9	65.7	Long-Term Debt Issued	204.7	253.3	1,068.6
(60.4)	(10.0)	Other—Net	(71.6)	(55.7)	(99.9)
$ (16.7)	$230.4		$846.5	$613.3	$1,510.8
		Application of Funds			
$ (72.4)	$ 80.2	Increase (Decrease)in Principal of Finance Receivables (before charge-offs)	$352.8	$110.2	$ 840.5
4.5	8.7	Increase in Investments (at carrying amount)	89.2	153.9	132.6
—	—	Savings and Loan Division Acquisitions	18.6	—	70.6
—	—	Loss on Disposal of Spiegel	40.7	—	—
11.9	32.3	Additions to Property and Equipment	76.8	73.7	26.9
(11.2)	5.2	Decrease (Increase) in Accounts Payable	39.2	(21.8)	(26.6)
35.8	89.3	Long-Term Debt Paid	168.2	236.5	231.7
—	—	Capital and Southwestern Acquisitions	—	—	184.3
		Dividends on Capital Stock			
3.8	3.8	Preferred	17.2	17.1	8.2
10.9	10.9	Common	43.8	43.7	42.6
$ (16.7)	$230.4		$846.5	$613.3	$1,510.8

See Notes to Financial Statements.

1. Summary of Significant Accounting Principles and Practices

a) Basis of Consolidation. The consolidated financial statements include, after inter-company eliminations, the accounts of all significant subsidiaries except those comprising the Savings and Loan Division and Merchandising Division, which are included on the equity method and discontinued operations. Financial statements for the Savings and Loan Division and for the Merchandising Division are presented elsewhere in this report.

Certain prior period amounts have been reclassified to conform with the 1981 presentation.

b) Finance Operations. The financial statements, except for consumer finance revenue, are prepared on the accrual basis.

Unearned finance charges generally are taken into income as earned and collected under the sum-of-the-digits method. Income from interest-bearing direct cash loans is taken into income as collected.

Receivables considered uncollectible or to require disproportionate collection costs are charged to the reserve for credit losses, but collection efforts generally are continued.

c) Insurance Operations. Insurance subsidiaries are engaged primarily in credit life, credit accident and health, and property and liability insurance.

Insurance policy acquisition costs are deferred and amortized over the lives of the policies in relation to earned premium.

Premiums on credit life insurance are taken into income on the sum-of-the-digits method or, in the case of level-term contracts, on the straight-line method over the lives of the policies. Premiums on credit accident and health contracts are generally taken into income on an average of the sum-of-the-digits and the straight-line methods. Property and liability premiums are taken into income on the straight-line method.

d) Valuation of Investments. Debt securities are carried at amortized cost. Equity securities (substantially all marketable) generally are carried at market value. The carrying amount of marketable equity securities is adjusted from cost to market value through a valuation allowance. The change in valuation is not reflected in the income statement. Other investments are carried at cost.

e) Translation of Foreign Currencies. Foreign currencies are translated under Financial Accounting Standards Board Statement No. 8. Assets (including immaterial amounts of property and equipment and related accumulated depreciation) and liabilities in foreign currencies are translated to U.S. dollar equivalents at the market rates at each balance sheet date. Translation of foreign operating results is at the average market rate for each period covered by the Statement of Income. The net gain or loss is credited or charged to income.

f) Interest Expense, After Income Taxes, Related to Investment in Subsidiaries. Interest expense related to investment in non-Finance Division subsidiaries and discontinued operations is removed from interest expense of the Finance Division and is shown, net of taxes, as a separate item. Interest expense related to the investment in the Insurance Group is removed from interest expense of the Consumer Finance Group (Page 50), but remains in expense of the Finance Division.

The aggregate expense reflects the cost of funds used to acquire various subsidiaries as well as interest on funds used by Beneficial Corporation to pay dividends applicable to those subsidiaries to the extent that the subsidiaries have not paid dividends at the same payout ratio with regard to available net income as has Beneficial Corporation.

This presentation results in a more meaningful measure of profitability of the Consumer Finance Group and the Finance Division, as such interest expense is a common expense of the Company rather than applying to a particular division or group.

g) Amortization of Excess Cost of Net Assets Acquired. Excess cost applicable to acquisitions before November 1, 1970 is not being amortized. Excess cost applicable to subsequent acquisitions is being amortized over 40 years.

2. Change in Accounting Principle

Effective January 1, 1981, in accordance with Financial Accounting Standards Board Statement No. 43, the Company changed its method of accounting for vacation pay and began accruing vacation pay as earned. Financial statements prior to 1981 have been restated as required by the Statement, resulting in a decrease in retained earnings as of January 1, 1979 of $3.6 (after income taxes of $1.8). The accounting change decreased previously reported net income by $.2 ($.01 per share) for 1980 and $.8 ($.03 per share) for 1979. The Company previously accounted for the costs of vacation pay in the period in which paid.

3. Discontinued Operations

On August 31, 1981 the Company signed a definitive agreement for the sale of the stock of its wholly-owned subsidiary, Spiegel, Inc., to Otto Versand (GmbH & Co.), Hamburg, West Germany, for approximately $50.0. The transaction, completed January 6, 1982, resulted in a loss on disposal of $40.7 (after income taxes of $9.9), a loss of $1.83 a share. Income (loss) from discontinued operations was $(.5), $.8 and $8.1 after income taxes of ($.5), $.4 and $6.1 in 1981, 1980 and 1979, respectively. The interest expense related to the Company's investment in Spiegel of $5.4, $5.1 and $4.3 in 1981, 1980 and 1979, respectively, has been reclassified to discontinued operations.

Under the terms of the agreement the stock of Fairfax Family Fund, Inc., a wholly-owned subsidiary of Spiegel, was transferred by means of a dividend to Beneficial Corporation on December 31, 1981. As management has decided to liquidate Fairfax, whose activities since August 31, 1981 have been limited to collection of outstanding receivables, Fairfax has also been accounted for as discontinued operations since August 31, 1981. The estimated loss on disposition of Fairfax has been provided for in the loss on disposal included in discontinued operations.

The Company's investments in and advances to Spiegel is shown on the Balance Sheet at net realizable value.

The Statement of Income reflects the results of discontinued operations separately from continuing operations.

(amounts in millions)

At December 31, 1981, the assets and liabilities of Discontinued Operations were as follows:

Assets	$441.1
Liabilities	364.6
Net Assets	$ 76.5

Net sales and other revenue of Discontinued Operations were $439.0, $411.7 and $426.2 in 1981, 1980 and 1979, respectively.

4. Cash

December 31	1981	1980
On Hand and Unrestricted Deposits	$18.1	$24.4
Compensating Balances	31.6	30.8
Total Cash	$49.7	$55.2

Compensating balance requirements generally are 7% on one-half of the bank line of credit with a ½% per annum fee on the remainder.

5. Finance Receivables

The principal of finance receivables and maximum term (in months from origination) are as follows:

	Amount		Maximum Term	
December 31	1981	1980	1981	1980
			(months)	
Real Estate Secured Loans	$2,035	$1,470	180	180
Other Loans	1,832	2,197	180	180
Sales Finance Contracts	241	326	60	60
Bank Credit Card Receivables	106	92	36	36
Lease and Commercial Finance Receivables	232	168	300	300
Total Principal of Finance Receivables	$4,446	$4,253		

Scheduled contractual payments of finance receivables to be received after December 31, 1981 are as follows:

	1982	1983	1984	1985	Beyond
Real Estate Secured Loans	17%	14%	14%	14%	41%
Other Loans	51	31	14	3	1
Sales Finance Contracts	68	23	6	2	1
Bank Credit Card Receivables	44	31	25	—	—
Lease and Commercial Finance Receivables	25	18	12	8	37
Total	36	23	14	8	19

The above tabulation of scheduled contractual payments is not a forecast of collections. Collections of principal of finance receivables amounted to $2,011.8 for 1981 and $2,048.8 for 1980.

The percentage of monthly cash principal collections to average monthly balances was 3.85% for 1981 and 4.01% for 1980.

6. Net Receivables Acquired from Western Auto

Customer receivables of Western Auto retail and associate stores are purchased, with recourse, from Western Auto, which maintains the reserve for credit losses applicable to these receivables. The accounts had a weighted average remaining maturity of 13 months at December 31,1981.

7. Investments

Investments are principally Insurance Group long-term investments. Equity securities had a cost of $116.2 at December 31, 1981 and $116.1 at December 31, 1980.

Investments consist of the following:

December 31	1981		1980	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Debt Securities				
Certificates of Deposit	$ 118.8	$118.8	$ 98.3	$ 98.3
Commercial Paper	39.9	39.9	41.7	41.7
U.S. Government Obligations	152.2	131.1	115.1	105.0
Foreign Government and Agency Obligations	71.6	62.2	74.1	66.8
Municipal Bonds	313.8	180.4	300.7	204.8
Convertible Bonds	8.1	6.5	14.9	13.4
Non-Convertible Bonds	187.9	158.4	166.7	148.5
Other	107.0	107.0	96.2	96.2
	999.3	804.3	907.7	774.7
Equity Securities				
Convertible Preferred Stocks	—	—	4.5	4.5
Other Preferred Stocks	48.3	48.3	50.8	50.8
Common Stocks	42.5	42.5	43.1	43.1
	90.8	90.8	98.4	98.4
Other	14.3	14.3	9.1	9.1
Total Investments	$1,104.4	$909.4	$1,015.2	$882.2

Net unrealized loss on equity securities is as follows:

December 31	1981	1980
Unrealized Losses	$(27.4)	$(22.8)
Less Unrealized Gains	2.0	5.1
Net Unrealized Loss	$(25.4)	$(17.7)

Realized gains and losses are determined on the specific cost identification basis and are not material.

8. Other Assets

December 31	1981	1980
Accounts and Notes Receivable	$ 21.8	$ .6
Accrued Interest on Investments	24.7	20.2
Deferred Income Tax Benefits	—	16.4
Excess Cost of Net Assets Acquired	131.9	138.0
Insurance Premiums Receivable	51.6	55.0
Prepaid Expenses	23.0	40.7
Property Acquired by Foreclosures	14.0	—
Receivable from Merchandising Division	8.1	9.0
Unamortized Insurance Policy Acquisition Costs	69.3	60.4
Unamortized Long-Term Debt Expense	16.8	19.2
Other	33.8	16.9
Total Other Assets	$395.0	$376.4

The portion of excess cost of net assets acquired being amortized at December 31, 1981 and 1980 is $106.4 and $112.8.

9. Short-Term Debt

December 31	1981	1980
Banks	$ 561.0	$246.2
Commercial Paper	485.5	503.5
Total Short-Term Notes	1,046.5	749.7
Employee Thrift Accounts	86.6	67.7
Total	1,133.1	817.4
Unamortized Discount	(4.2)	(3.0)
Total Short-Term Debt	$1,128.9	$814.4

Bank lines of credit are as follows:

December 31	1981	1980
Loans	$ 561.0	$246.2
Unused Portion	529.0	751.5
Total Bank Lines	$1,090.0	$997.7

Data for short-term notes are:

	1981	1980	1979
Maximum amount at any month end	$1,298.7	$1,003.9	$929.9
Daily average amount	957.3	888.5	566.6
Average actual interest rates			
U.S. dollar borrowings	17.17%	13.63%	12.14%
Foreign currency borrowings	13.73	12.76	11.47
Overall	16.63	13.46	11.96

The average interest rates on short-term notes outstanding at year end, without giving effect to compensating balances at banks, and maturities are as follows:

December 31	1981	1980	1979
Average interest rates			
Banks			
U.S. dollars	14.71%	21.28%	15.22%
Foreign currencies	15.34	13.42	12.00
Overall	14.88	17.90	13.63
Commercial Paper			
U.S. dollars	12.64	19.34	13.22
Foreign currencies	16.65	16.99	13.44
Overall	12.87	19.28	13.27
Maturities (in days)			
Banks	1-90	1-90	1-365
Commercial Paper	15-180	15-180	15-180

10. Accounts Payable and Accrued Liabilities

December 31	1981	1980
Accounts Payable	$ 37.9	$ 26.5
Accrued and Deferred Compensation	24.9	24.1
Accrued Interest	95.1	85.2
Dealer Reserves	23.5	24.1
Deferred Income Taxes	42.5	—
Income Taxes Payable (Recoverable)	(33.0)	32.4
Insurance Premiums Payable	54.7	62.1
Other	28.2	34.6
Total Accounts Payable and Accrued Liabilities	$273.8	$289.0

(amounts in millions)

11. Long-Term Debt and Restrictions on Additional Paid-in Capital and Retained Earnings

Long-term debt outstanding is as follows:

December 31	1981	1980
By Currency		
United States	$2,945.5	$2,912.3
Australian	145.6	108.9
British	85.1	95.7
Canadian	109.0	146.9
Other	90.2	96.2
Total	3,375.4	3,360.0
Unamortized Discount	(18.1)	(24.0)
Total Long-Term Debt	$3,357.3	$3,336.0
By Maturity		
1981	$ —	$ 158.3
1982	94.7	91.8
1983	241.7	207.4
1984	561.9	542.3
1985	295.6	285.8
1986	239.9	65.7
1987-91	1,076.8	1,150.3
1992-96	326.3	319.9
1997-2001	163.5	163.5
2002-07	375.0	375.0
Total	3,375.4	3,360.0
Unamortized Discount	(18.1)	(24.0)
Total Long-Term Debt	$3,357.3	$3,336.0
Subordinated Debt Included Above	$ 50.0	$ 73.2
Weighted Average Annual Interest Rate on Debt Outstanding at End of Year	9.70%	8.81%

Long-term debt at December 31, 1981 includes $550.0 for which the holder may elect payment prior to maturity. Such debt is shown above in the earliest year it could become payable.

Certain of the indentures and agreements relating to the Company's long-term debt contain convenants restricting payment of dividends (other than stock dividends) and the purchase and retirement of the Company's capital stock. At December 31, 1981 and 1980, the amounts of all unrestricted additional paid-in capital and retained earnings, under the most restrictive of these covenants, are approximately $430 and $550.

The increases of $.4 and $.2 in 1981 and 1980 in additional paid-in capital resulted from additions upon the conversion of $5.50 Dividend Cumulative Convertible Preferred Stock to Common Stock and the distribution of common stock from the treasury for the Company's incentive compensation plan.

12. Capital Stock

The number of shares of capital stock is as follows:

Issued and Outstanding December 31	1981	1980
Preferred—no par value (issuable in series). Authorized, 500,000 9.25% Series Redeemable Preferred	125,000	125,000
Preferred—$1 par value. Authorized, 2,500,000	—	—
5% Cumulative Preferred—$50 par value. Authorized, 585,730	407,718(a	407,718(a
$5.50 Dividend Cumulative Convertible Preferred—no par value—$20 stated value (each share convertible into 4.5 shares of Common; maximum liquidation value, $9.1 million and $9.9 million). Authorized, 1,164,077	91,186	98,854
$4.50 Dividend Cumulative Preferred—$100 par value. Authorized, 103,976	103,976	103,976
$4.30 Dividend Cumulative Preferred—no par value—$100 stated value. Authorized, 1,069,204	836,585	836,585
Common—$1 par value. Authorized, 60,000,000	22,193,858(b	22,150,739(b
After deducting treasury shares		
a) 5% Cumulative Preferred	178,012	178,012
b) Common	4,778,861	4,787,481

At December 31, 1981, 410,337 of the authorized Common shares shown above are issuable upon conversion of $5.50 Preferred.

13. Redeemable Preferred Stock

Dividends on the 9.25% Series Redeemable Preferred Stock, which are cumulative, are payable quarterly at $23.125 per share. Beginning November 15, 1985 and annually through November 15, 1999, the Company is required to redeem 8,333 shares of the stock through a sinking fund at $1,000 per share. Sinking fund payments are cumulative. The Company may, at its option, increase the sinking fund payment by 8,333 shares an-

nually up to an aggregate of 43,750 shares. Unless dividend and sinking fund payments on this stock are current, the Company may not pay dividends or make other distributions or purchase, redeem, or retire any issues of stock junior to this issue. The Company has the right to redeem the stock beginning November 15, 1989 at an initial redemption price of $1,043.82 per share, declining ratably thereafter to $1,000 per share. Upon the arrearage of six quarterly dividends on any series of the Preferred Stock, the holders of the 9.25% Series Preferred Stock with the holders of other series of the Preferred Stock voting as a class would be entitled to elect two members of the Board of Directors.

14. Employee Retirement Plans

The Company and consolidated subsidiaries have several retirement plans covering substantially all employees in the United States. The plans are fully funded. Total expense for the plans for 1981, 1980 and 1979 was $6.5, $7.2 and $5.3, respectively. The Company makes annual contributions to the plans equal to the amounts accrued for retirement expense. Certain plan amendments were made during 1980 to provide for updated benefits, which had the effect of reducing net income by $1.1. Accumulated plan benefits and plan net assets for the Company's domestic benefit plans are:

January 1	1981	1980	1979
Actuarial Present Value of Accumulated Plan Benefits			
Vested	$44.0	$34.2	$26.8
Nonvested	6.2	7.4	2.9
Total Actuarial Present Value of Accumulated Plan Benefits	$50.2	$41.6	$29.7
Net Assets Available for Benefits	$85.3	$71.0	$54.0

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8%.

15. Provision for Restructuring Costs

In 1981 the Company provided $7.2 for employee severance costs related to the restructuring of operating departments and headquarters operations resulting from the closing of approximately 450 domestic consumer finance offices and $1.2 for the loss on the sale of consumer lending operations in Alabama and Tennessee.

16. Taxes on Income

The Company files a consolidated U.S. federal income tax return with all eligible subsidiaries, including those in the Savings and Loan and Merchandising Divisions. The provision for income taxes for the Finance Division is comprised of:

	1981	1980	1979
U.S.			
Current	$(22.9)	$ (2.2)	$33.6
Deferred	41.1	18.5	(2.5)
Investment Tax Credit Deferred	.7	18.5	10.8
Total U.S.	18.9	34.8	41.9
Foreign			
Current	11.8	11.7	8.7
Deferred	1.4	1.7	(1.2)
Total Foreign	13.2	13.4	7.5
Total U.S. and Foreign	32.1	48.2	49.4
State and Local	5.5	5.7	7.2
Total Provision for Income Taxes	$ 37.6	$53.9	$56.6

Deferred income taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes and relate to:

	1981	1980	1979
U.S.			
Leasing Transactions	$30.1	$21.3	$ 8.5
Differences Between Cash and Accrual Basis	3.9	(6.2)	(5.4)
Insurance Benefits Provided	2.3	3.0	.4
Insurance Policy Acquisition Costs	3.5	1.6	2.9
Provision for Credit Losses	(1.5)	(2.5)	(7.9)
Unrealized Foreign Exchange Gain (Loss)	2.9	(2.4)	(1.7)
Other	(.1)	3.7	.7
Total U.S.	41.1	18.5	(2.5)
Foreign			
Differences Between Cash and Accrual Basis	.1	1.3	.2
Loss Carryover	.6	(.5)	(.7)
Provision for Credit Losses	.9	(.3)	(.6)
Unrealized Foreign Exchange Gain (Loss)	(.1)	.4	(.1)
Other	(.1)	.8	—
Total Foreign	1.4	1.7	(1.2)
Total Provision for Deferred Income Taxes	$42.5	$20.2	$(3.7)

(amounts in millions)

A reconciliation between the expected and the effective U.S. and foreign tax rates on Finance Division income before income taxes follows:

	1981	1980	1979
Expected Tax Rate	46.0%	46.0%	46.0%
Increases (Decreases) in Tax Rate Resulting from			
Income of insurance subsidiaries taxed at lower effective rates	(18.9)	(11.4)	(9.9)
State and local income taxes	(3.2)	(1.7)	(2.1)
Unrealized and untaxed foreign exchange gains and losses	5.2	.4	(.6)
Investment tax credit	(3.4)	(1.7)	(.9)
Accrual for prior year taxes	4.3	—	—
Other	2.3	(.4)	(.6)
Effective Tax Rate	32.3%	31.2%	31.9%

U.S. income taxes generally have not been provided on retained earnings of foreign subsidiaries, as such retained earnings are expected to be permanently invested in foreign countries.

17. Leases

There are 2,039 real estate leases. They generally have an original term of five years with renewal option for a like term. Data processing equipment lease terms range from two to five years and generally are renewable. The minimum rental commitments under non-cancelable leases at December 31, 1981 are as follows:

1982	$15.2
1983	11.1
1984	7.0
1985	4.4
1986	2.5
1987 thru 1991	3.9
Thereafter	3.1
Total	$47.2

18. Earnings Per Common Share

Earnings per common share is computed on the basis of average shares outstanding and their equivalents after deducting dividend requirements on preferred stocks. None of the preferred stocks are common stock equivalents.

19. Acquisitions/Divestitures

The Company began the acquisition of the outstanding stock of First Texas Financial Corporation (now the Savings and Loan Division) in 1978 and acquired the remaining shares in 1979. In April 1981, Beneficial acquired Centennial Holding Company, Houston, Texas for $18.6. Centennial operated 15 savings and loan branches in Texas which have been merged into First Texas.

In mid-December 1979 the Company acquired Capital Financial Services Inc. and the consumer finance and insurance operations of Southwestern Investment Company. Results of operations of Capital and Southwestern, except consumer finance offices subsequently divested, are included in the Finance Division from that time.

In accordance with a consent decree between the Justice Department and the Company, BarclaysAmericanCorporation purchased, on October 10, 1980, 138 consumer finance offices formerly of Capital and Southwestern. The purchase price was approximately $190.

The acquisitions, accounted for as purchases (net of divestitures), were as follows:

	Cost	Excess Cost
First Texas	$ 91.8	$52.3
Capital	110.7	30.6
Southwestern	73.6	24.4
Centennial Holding Company	18.6	*

*Excess cost recorded by the Savings and Loan Division.

Excess cost, as shown above, is being amortized on the straight-line basis over 40 years.

Purchase accounting adjustments of $28.5 (after taxes) relating to the value of mortgage loans of First Texas are being amortized under the sum-of-the-digits method over a maximum of nine years. Income from the Savings and Loan Division consisted of:

	1981	1980	1979
Equity in Net Income (Loss)	$(24.5)	$ (.8)	$ 9.0
Purchase Accounting Adjustments	3.2	3.9	3.6
Total	$(21.3)	$3.1	$12.6

If the acquisitions, net of divestitures, had been made on January 1, 1979, net income for 1979 would have been $106.6, $4.50 per share.

20. Interest Expense

The effect of the treatment for interest expense described in Note 1f is as follows:

	1981	1980	1979
Net Income			
Finance Division			
Consumer Finance Group	$11.1	$ 50.2	$ 52.6
Insurance Group	63.1	59.5	50.4
Interest Expense, After Income Taxes, Related to Investment in Insurance Group	(12.3)	(9.1)	(4.2)
Income From Finance Division	61.9	100.6	98.8
Income (Loss) From Savings and Loan Division	(21.3)	3.1	12.6
Income (Loss) From Merchandising Division	12.0	4.8	(4.6)
Interest Expense, After Income Taxes, Related to Investment in Non-Consolidated Subsidiaries	(13.7)	(10.4)	(10.3)
Income From Continuing Operations	38.9	98.1	96.5
Discontinued Operations, After Income Taxes			
Income (Loss)	(.5)	.8	8.1
Interest Expense Related to Investment	(5.4)	(5.1)	(4.3)
Loss on Disposal	(40.7)	—	—
Total	$ (7.7)	$ 93.8	$100.3

Financial Accounting Standards Board Statement No. 34 requires interest to be capitalized on assets being constructed for an enterprise's own use, effective January 1, 1980. In 1979 the Company began construction of office buildings, expected to be ready for occupancy in 1982, and elected to begin capitalization of interest in 1979, as permitted. During 1981, 1980 and 1979 the total amount of interest cost incurred was $505.9, $427.2 and $271.9, respectively, of which $11.8, $3.5 and $.8 was capitalized.

21. Operations in Different Geographic Areas

Operations of the Finance Division are primarily in the United States. Foreign operations are conducted through subsidiaries in Canada, Australia and other countries.

Revenue, income before income taxes, net income, and identifiable assets applicable to various geographic areas are as follows:

	1981	1980	1979
Revenue			
United States	$1,280.5	$1,160.1	$851.7
Canada	49.8	54.3	52.6
Other Countries	192.7	156.4	99.8
Eliminations (a	(56.9)	(47.6)	(21.2)
Total	$1,466.1	$1,323.2	$982.9
Income Before Income Taxes			
United States	$ 73.3	$ 117.9	$134.3
Canada	15.2	17.5	15.9
Other Countries	21.6	27.7	13.9
General Corporate Expenses	(10.6)	(8.6)	(8.7)
Total	$ 99.5	$ 154.5	$155.4
Net Income (Loss)			
United States	$ 46.1	$ 78.0	$ 84.2
Canada	6.9	7.3	8.9
Other Countries	14.6	19.9	10.4
General Corporate Expenses	(5.7)	(4.6)	(4.7)
Total	$ 61.9	$ 100.6	$ 98.8
Identifiable Assets at December 31			
United States	$5,066.5	$4,811.4	
Canada	231.2	199.6	
Other Countries	1,014.4	1,001.6	
Investments in and Advances to Non-Consolidated Subsidiaries	339.0	336.2	
Investments in and Advances to Discontinued Operations	102.9	160.3	
Corporate Assets	25.1	29.1	
Eliminations (b	(438.9)	(506.8)	
Total	$6,340.2	$6,031.4	

a) Interest and service fees received from affiliates.

b) Intercompany receivables and payables.

The assets above are classified by their identification with operations in each geographic area without regard to currency denominations.

(amounts in millions)

The Company generally attempts to limit its exposure to foreign exchange fluctuations by borrowing in the same currencies as its assets. In the aggregate, amounts denominated in foreign currencies after translation to U.S. dollar equivalents are:

December 31	1981	1980
Assets	$769.4	$728.4
Liabilities	756.4	721.3
Net Assets	$ 13.0	$ 7.1

22. Industry Segment Information

The business of the Finance Division is comprised of consumer finance and insurance operations. Revenue, income before income taxes and identifiable assets applicable to these operations follow:

	1981	1980	1979
Revenue			
Consumer Finance Group	$ 978.4	$ 944.1	$732.7
Insurance Group	496.4	388.3	260.5
Eliminations (a	(8.7)	(9.2)	(10.3)
Total	$1,466.1	$1,323.2	$982.9
Income Before Income Taxes			
Consumer Finance Group	$ 55.1	$ 102.9	$108.6
Insurance Group	77.7	77.0	63.3
Interest Expense Related to Investment	(22.7)	(16.8)	(7.8)
General Corporate Expenses	(10.6)	(8.6)	(8.7)
Total	$ 99.5	$ 154.5	$155.4

	1981	1980
Identifiable Assets at December 31		
Consumer Finance Group	$4,904.4	$4,633.6
Insurance Group	1,128.3	1,030.7
Investments in and Advances to Non-Consolidated Subsidiaries	339.0	336.2
Investments in and Advances to Discontinued Operations	102.9	160.3
Corporate Assets	25.1	29.1
Eliminations (b	(159.5)	(158.5)
Total	$6,340.2	$6,031.4

a) Principally intersegment revenue of consumer finance subsidiaries derived from insurance activities with affiliated insurance companies.

b) Principally insurance reserves applicable to finance receivables.

23. Selected Financial Data

Selected financial data required by Securities and Exchange Commission rules are included (unaudited) in Eleven-Year Summary—Supplemental Information, Page 68 and in Data by Calendar Quarter—Supplemental Information Page 70.

Accountants' Opinion

The Board of Directors and Shareholders of Beneficial Corporation

We have examined the balance sheets of Beneficial Corporation and Consolidated Subsidiaries as of December 31, 1981 and 1980 and the related statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Beneficial Acceptance Corporation (a consolidated subsidiary), which statements reflect assets of $123.6 and $118.3 million at December 31, 1981 and 1980 and revenue of $24.3 and $9.3 million for the years then ended. We also did not examine the financial statements of the Merchandising Division or of the Savings and Loan Division, the equity in net assets and net income (loss) of which are set forth in the accompanying financial statements. In addition, we did not examine the financial statements of Spiegel, Inc. and Subsidiaries, the equity in net assets and net income (loss) of which are included in discontinued operations in the accompanying financial statements. The financial statements of the aforementioned companies and divisions were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such companies and divisions, is based solely upon the reports of the other auditors. The report on the financial statements of Spiegel, Inc. and Subsidiaries is modified as to consistency with respect to the change, with which the other auditors concurred, in the amortization period of retirement plan prior service costs.

In our opinion, based upon our examinations and the reports of other auditors referred to above, such statements present fairly the financial position of Beneficial Corporation and Consolidated Subsidiaries at December 31, 1981 and 1980 and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981 in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the basis of presentation of the Merchandising Division resulting from the discontinuance of certain operations described in Note 3 to the financial statements.

DELOITTE HASKINS & SELLS

Morristown, New Jersey
February 18, 1982

Beneficial Corporation and Consolidated Subsidiaries
Supplementary Financial Data Adjusted for General Inflation
(Unaudited)

(in millions)	1981
Income from Continuing Operations as Reported in the Statement of Income	$38.9
Adjustment to Restate Depreciation Expense for the Effect of General Inflation	3.9
Income from Continuing Operations Adjusted for General Inflation	$35.0
Decline in Purchasing Power of Net Monetary Assets Held	$34.1

(in millions of average 1981 dollars)

Years Ended December 31	1981	1980	1979	1978	1977
Revenue	$1,466.1	$1,460.8	$1,231.6	$1,072.7	$960.6
Income From Continuing Operations	35.0	108.3	120.9		
Net Assets at Year End	1,000.8	1,169.3	1,232.2		
Per Common Share					
Income From Continuing Operations	.80	3.81	4.89		
Cash Dividends	2.00	2.21	2.44	2.37	2.56
Market Price at Year End	19.48	24.15	33.36	31.89	31.69
Decline in Purchasing Power of Net Monetary Assets Held	34.1	59.3	63.5		
Average Consumer Price Index	272.4	246.8	217.4	195.4	181.5

Notes

Basis of Preparation

The financial statements are prepared on the basis of historic prices in effect when the transactions occurred. The supplementary financial information required by Financial Accounting Standard Board Statement No. 33 discloses certain effects of inflation on the Company's property and equipment. The supplemental data is expressed in average 1981 dollars and reflects adjustments for changes that have occurred in the purchasing power of the dollar as measured by the Consumer Price Index for all Urban Consumers (CPI-U). Certain information relating to years ended before December 31, 1979 is impractical to obtain.

Data Adjusted for General Inflation

Depreciation expense was calculated using the same methods and useful lives used in the financial statements. The Statement requires that no adjustments be made to the provision for income taxes.

Current Cost

Because current cost amounts do not differ materially from amounts adjusted for general inflation (constant dollars), current cost data has not been included.

Redeemable Preferred Stock

For purposes of calculating the decline in purchasing power of net monetary assets held and net assets at year end, redeemable preferred stock is included in shareholders' equity. If redeemable preferred stock had been classified as a monetary liability, the decline in purchasing power of net monetary assets held and net assets at year end would have been as follows:

(in millions of average 1981 dollars)

Years Ended December 31	1981	1980	1979
Decline in Purchasing Power of Net Monetary Assets Held	$ 23.3	$ 44.7	$ 62.1
Net Assets at Year End	879.8	1,037.4	1,109.8

Management's Discussion of Supplementary Financial Data Adjusted for General Inflation

Introduction

Statement 33 requires certain businesses to measure and report the effects of changing prices using the methods of measurement and reporting formats prescribed. Two methods are prescribed by Statement 33: the "constant dollar" and "current cost" methods. The constant dollar method requires data adjusted for "general inflation" using the CPI-U to provide financial information in dollars of equivalent purchasing power (constant dollars). Conversion to constant dollars does not change the historic cost basis of measurement, but changes only the unit of measurement. The current cost method requires data adjusted for the effects of changes in values of specific assets. Property and equipment, the only material specific assets of the Company affected by the requirement, are relatively insignificant to the operations of the Company, and current cost amounts do not differ materially from amounts adjusted for general inflation (constant dollar method). Current cost data, therefore, is not presented.

Effects of Inflation

In times of rising inflation consumers require additional funds to maintain a fixed level of assets, inventory or consumption which increases the level of loan demand on the Finance and Savings and Loan Divisions. However, high levels of inflation result in a higher cost of obtaining funds. Interest rates charged to customers cannot be substantially increased due to interest rate ceilings established by state laws. These interest rate ceilings have resulted in a reduction in operating margin since inflation induced increased costs cannot be passed on to our customers without approval for increases in interest rates charged.

Rising inflation also affects the Merchandising Division. The reduction in the purchasing power of the dollar causes wage rates and other costs to climb. Costs to replace existing inventory and property and equipment are in excess of the prices initially paid.

Net Income Adjusted for General Inflation

Since most of the Company's assets and liabilities are monetary in nature and fixed in terms of the amount of cash to be received or paid, they require no adjustment. Property and equipment, however, is not a monetary asset and has been restated to average 1981 dollars using the CPI-U. This resulted in a higher depreciation expense, reducing income from continuing operations by $3.9 million as shown on the previous page. Depreciation expense was calculated using the same methods, useful lives and salvage values used for historical cost depreciation as reflected in the primary financial statements. Revenue and other expense items were not restated as these are assumed to have occurred proportionately to the CPI-U over the course of the year. Statement 33 requires that no adjustment be made to the provision for income taxes for the additional depreciation expense.

A separate line is shown for the decline in purchasing power of net monetary assets held. Net monetary assets are cash and claims to cash fixed in terms of dollars less amounts owed, fixed in terms of dollars. Financial institutions are usually in a positive net monetary position. Consequently, they will show a purchasing power decline during periods of rising prices, which is not included in adjusting net income for general inflation.

Selected Supplementary Financial Data Adjusted for General Inflation

The table on the previous page shows the effect of adjusting selected financial data to average 1981 dollars. Net assets at year-end 1981 are calculated by reducing shareholders' equity by the historic cost balance of property and equipment and converting the remainder to average 1981 dollars. To this figure is added the constant dollar property and equipment balance. The decrease in historic cost/constant dollar net assets versus net assets as reported in the primary statements is due to the conversion of year-end shareholders' equity (less property and equipment) from year-end 1981 dollars to average 1981 dollars.

Since Statement 33 is experimental in nature, the data presented herein should not be viewed as a precise calculation of the effects of inflation.

Management Strategies for Coping with Inflation

Corporate programs are underway to ensure that resources are efficiently utilized and costs are adequately controlled. Domestic lending operations have been reassessed and consolidated and emphasis is being placed on attracting second mortgage customers. Second mortgages are secured by real estate and are generally less costly to administer than consumer loans. The Company is also seeking approval from regulatory agencies to increase interest rates charged commensurate with the Company's higher cost of funds. Merchandising Division operations have been trimmed through the sale of Spiegel, while Western Auto results have improved significantly due to a program of expense control. These steps should improve profitability and help to offset the adverse effects of inflation.

Statement of Income

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1981	1980	(in millions)	1981	1980	1979
		Net Finance Revenue			
$252.0	$223.7	Finance Charges and Fees	$ 936.1	$ 899.4	$ 696.7
114.4	92.3	Interest Expense	434.8	377.5	234.5
137.6	131.4	Gross Margin	501.3	521.9	462.2
5.8	5.4	Other Revenue	42.3	44.7	36.0
143.4	136.8	Total	543.6	566.6	498.2
		Operating Expenses			
43.9	47.4	Salaries and Employee Benefits	194.0	194.6	161.1
32.7	31.8	Provision for Credit Losses (less recoveries)	108.3	107.2	102.4
2.4	3.9	Advertising	17.1	15.0	22.2
2.6	2.0	Depreciation	10.6	8.4	7.2
2.6	2.8	Postage and Express	11.2	11.6	10.1
2.3	2.8	Printing and Stationery	11.0	12.4	9.4
7.9	7.0	Rent	30.7	28.6	21.4
4.7	4.7	Telephone	19.8	20.5	17.5
3.0	3.2	Travel	13.3	12.9	10.1
18.5	12.6	Other	72.1	59.1	38.2
120.6	118.2	Total	488.1	470.3	399.6
22.8	18.6	**Operating Income**	55.5	96.3	98.6
—	—	Provision for Restructuring Costs (Note 15)	(8.4)	—	—
22.8	18.6	**Income (Loss) Before Income Taxes**	47.1	96.3	98.6
12.8	6.3	Provision for Income Taxes	29.6	44.3	47.6
10.0	12.3	**Income (Loss) Before Foreign Exchange Gain (Loss)**	17.5	52.0	51.0
.6	(2.2)	Foreign Exchange Gain (Loss), After Income Taxes	(6.4)	(1.8)	1.6
$ 10.6	$ 10.1	**Net Income** (Note 20)	$ 11.1	$ 50.2	$ 52.6

Supplemental Information

		During The Period			
$427.5	$569.8	New Funds Lent to Customers	$2,225.9	$2,116.0	$2,443.2
11.6	24.1	Principal of Finance Receivables Purchased	163.3	78.6	133.7
37.2	33.0	Finance Receivables Charged Off (less recoveries)	106.6	114.7	73.2
21.66	21.22	Annual Percentage Rate of Finance Charges and Fees Collected	20.77	21.15	21.23
		At End of Period			
		Number of Consumer Finance Offices	1,793	2,258	2,399

Insurance Group
Statement of Income

(Unaudited) Three Months Ended December 31 1981	1980	(in millions)	Years Ended December 31 1981	1980	1979
		Revenue			
$109.0	$ 87.2	Premiums Earned	$ 395.7	$ 310.1	$ 217.5
23.2	17.3	Investment Income (net)	85.3	65.6	31.9
3.7	2.7	Other Income	11.5	11.4	9.4
135.9	107.2	Total	492.5	387.1	258.8
		Benefits and Expenses			
97.8	63.6	Policy Benefits	327.2	228.1	136.0
16.6	11.1	Commissions and Brokerage	68.0	51.0	59.6
3.9	2.6	Salaries and Employee Benefits	12.1	9.2	5.0
(4.6)	.5	Decrease (Increase) in Unamortized Policy Acquisition Costs	(8.9)	1.5	(14.6)
1.3	1.5	Licenses and Taxes	5.6	4.9	4.0
3.5	6.9	Other Expenses	14.0	16.6	6.6
118.5	86.2	Total	418.0	311.3	196.6
17.4	21.0	**Income Before Income Taxes**	74.5	75.8	62.2
3.8	4.4	Provision for Income Taxes	14.6	17.5	12.9
13.6	16.6	**Income Before Foreign Exchange Gain (Loss)**	59.9	58.3	49.3
1.0	.3	Foreign Exchange Gain (Loss), After Income Taxes	(.7)	—	(.6)
14.6	16.9	**Income Before Realized Net Investment Gains (Losses)**	59.2	58.3	48.7
.9	.4	Realized Net Investment Gains (Losses)	3.9	1.2	1.7
$ 15.5	$ 17.3	**Net Income** (Note 20)	$ 63.1	$ 59.5	$ 50.4

		Supplemental Information			
		During the Period			
$ 51.4	$161.9	Premiums Written	$ 463.9	$ 443.8	$ 272.7
.54	1.82	Ratio of Premiums Written to Shareholder's Equity (annualized)	1.21	1.25	.90
		At End Of Period			
		Investments*	$ 939.8	$ 850.3	$ 759.0
		Unamortized Policy Acquisition Costs	69.3	60.4	61.9
		Total Assets*	1,128.3	1,030.7	946.7
		Insurance Policy and Claim Reserves	622.2	557.5	513.7
		Shareholder's Equity*	383.0	356.5	301.4
		Life Insurance in Force	7,392.8	7,146.9	6,954.0

*Excludes investments in non-insurance subsidiaries.

Savings and Loan Division
Balance Sheet

(in millions) December 31	1981	1980
Assets		
Cash	$ 23.8	$ 5.2
Certificates of Deposit	30.6	26.5
Investment Securities (Notes 2 and 5)	109.2	115.8
Loans Receivable (net) (Notes 3 and 5)	1,825.5	1,508.8
Foreclosed Real Estate (at cost, less allowance for losses of $.2 in 1980)	3.2	3.2
Investment Real Estate (net) (Notes 1f and 4)	18.3	18.7
Federal Home Loan Bank Stock (at cost) (Note 5)	15.8	12.2
Property and Equipment (at cost, less accumulated depreciation of $10.7 and $9.8)	45.3	31.9
Excess Cost of Common Stock of Subsidiaries (Notes 1d and 11)	56.0	7.6
Refundable Federal Income Taxes (Note 8)	11.1	2.1
Other Assets	12.2	7.3
Total	$2,151.0	$1,739.3
Liabilities and Shareholder's Equity		
Savings Accounts (Note 6)	$1,629.2	$1,390.0
Advances from Federal Home Loan Bank (Note 5)	290.8	200.8
Notes Payable (Note 5)	105.1	34.0
Advance Payments by Borrowers for Taxes and Insurance	15.6	8.2
Deferred Federal Income Taxes (Note 8)	9.0	7.4
Other Liabilities	21.1	12.7
Total Liabilities	2,070.8	1,653.1
Shareholder's Equity (including Retained Earnings of $42.3 and $66.8) (Notes 5, 7, 8 and 11)	80.2	86.2
Total	$2,151.0	$1,739.3

See Notes to Financial Statements.

Savings and Loan Division
Statement of Income and Retained Earnings

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1981	1980	(in millions)	1981	1980	1979
		Interest Revenue			
$50.0	$37.6	Loans	$186.9	$142.3	$129.2
5.9	4.5	Investment Securities	19.1	17.5	14.0
55.9	42.1		206.0	159.8	143.2
		Interest Expense			
48.5	30.5	Savings Accounts (Note 6)	170.4	118.6	93.6
12.1	5.4	Borrowed Funds	37.4	20.9	17.4
60.6	35.9		207.8	139.5	111.0
(4.7)	6.2	**Gross Margin**	(1.8)	20.3	32.2
2.9	1.4	Other Revenue	6.6	4.7	11.2
(1.8)	7.6	Total	4.8	25.0	43.4
		Operating Expenses			
.7	.1	Provision for Losses	.9	.2	1.6
4.3	3.2	Salaries and Employee Benefits	15.5	12.2	11.0
8.3	4.3	Other	23.6	14.7	13.0
13.3	7.6	Total	40.0	27.1	25.6
(15.1)	—	**Income (Loss) Before Income Taxes**	(35.2)	(2.1)	17.8
		Provision for Income Taxes (Note 8)			
1.8	(1.8)	Current	(10.9)	(2.2)	3.0
(1.8)	1.2	Deferred	.2	.9	1.0
—	(.6)	Total	(10.7)	(1.3)	4.0
(15.1)	.6	**Net Income (Loss)**	(24.5)	(.8)	13.8
57.4	66.2	**Retained Earnings, Beginning of Period**	66.8	67.6	56.3
—	—	Dividends	—	—	2.5
$42.3	$66.8	**Retained Earnings, End of Period**	$ 42.3	$ 66.8	$ 67.6

See Notes to Financial Statements.

Introduction

Expansion, acquisition, consolidation of resources, modifications in operations caused or permitted by regulatory agencies, and the effects of changes in the economy and the savings and loan business environment were factors which have affected the financial condition and results of operations of the Savings and Loan Division since 1978. On February 21, 1979, the ten associations owned by the Division were merged into one, First Texas Savings Association. The acquisition of Centennial Holding Company, Houston, Texas was completed in April 1981, and added offices in areas where the Division was not previously operating.

Results of Operations

Due to a liberalized revision of Texas mortgage loan usury laws in early 1979 and to a subsequent federal override of all state usury laws that effectively removed interest rate ceilings on mortgage and construction loans in the latter part of the year, rates on new loans acquired by the Division have increased significantly resulting in increased interest on loans during the three years ended December 31, 1981. In addition, during 1981, the State of Texas rate ceiling on most consumer loans was increased. Also contributing to the increase in interest on loans were growth in loan balances and an additional portfolio acquired in the purchase of Centennial.

Investment securities income increased in 1979 and 1980 over each previous period due to higher investment securities balances with greater yields. 1981's increase in income is due to higher yields earned on invested amounts.

Interest on savings accounts and borrowed funds increased each year during the last three years compared to each previous period due to a growing savings portfolio, greater borrowed funds outstanding, and a change in the savings portfolio mix to shorter-term, higher-yielding instruments. High cost thirty-month money market and negotiable rate savings certificates dominated the savings picture in 1981. Although the loan portfolio rate improved as discussed above, it did not keep pace with this rapidly rising cost of funds. Consequently, the spread between these two key rates has deteriorated from a positive .72% at the end of 1979, to a negative .05% at the end of 1980 and further to a negative 2.08% at December 31, 1981.

Income from investment real estate has decreased each year since 1979 when a high level of real estate activity prevailed, which permitted the profitable disposition of real estate. This activity decreased during 1980 and 1981 due to increased loan rates and a reduction in the inventory of real estate for sale.

Operating expenses also increased in 1981, 1980, and 1979 compared to each previous period. The increases result primarily from the growth in the number of offices during the period, cost of new products being offered, and inflation.

The Provision for Income Taxes in 1979 decreased due to the merger of the Division's ten savings associations into one. Income tax benefits in 1980 and 1981 resulted from operating losses. During the fourth quarter of 1981, it was determined that the Division's 1981 operating loss would be carried back against prior years' incomes which were taxed at lower rates than those against which it was anticipated the 1981 loss would be applied. Thus, an adequate federal income tax benefit provision had been established at the end of the third quarter of 1981, and no further benefit was recorded during the fourth quarter.

Capital Resources and Liquidity

Due to net savings outflows during 1981, additional advances were obtained from the Federal Home Loan Bank, and other new sources were implemented during the year to help provide required funds. One source was through the Federal Reserve which commenced to allow savings institutions to borrow from it, and during 1981, a small line of credit was established with them. Another source was through a new product of retail repurchase agreements which the Division began offering on July 1, 1981. It had approximately $56 million outstanding at year-end. Additionally, Congress authorized an All Savers Certificate which was offered starting October 1, 1981. This new savings product also had a balance of $56 million at December 31, 1981. These new sources and products have generally had rates that were lower than those funds that were otherwise available to the Division. Beginning January 1, 1982, subject to certain limitations and restrictions, Individual Retirement Accounts were made available to an expanded public. It is anticipated that this product will also provide additional funds for the Division in 1982.

Savings and Loan Division
Statement of Changes in Financial Position

(Unaudited) Three Months Ended December 31 1981	1980	(in millions)	Years Ended December 31 1981	1980	1979
		Source of Funds			
		Operations			
$ (15.1)	$ .6	Net Income (Loss)	$ (24.5)	$ (.8)	$ 13.8
		Charges (Credits) to Income Not Requiring Funds			
47.8	13.8	Interest Credited to Savings Accounts	127.0	70.0	61.0
.7	.1	Provision for Losses	.8	.2	1.6
.6	.5	Depreciation	2.0	1.4	1.3
(3.3)	1.6	Other	(4.3)	(1.4)	(1.5)
30.7	16.6	Funds Provided by Operations	101.0	69.4	76.2
42.4	34.5	Loan Principal Repayments	194.0	175.0	235.6
7.0	4.1	Proceeds from Sales of Participations and Whole Loans	50.1	9.8	—
21.7	20.1	Increase (Decrease) in Savings Accounts before Interest Credited	(127.7)	41.8	(31.0)
(6.3)	.4	Increase (Decrease) in Advances from Federal Home Loan Bank	36.2	4.4	31.3
33.5	23.9	Increase in Notes Payable	64.4	12.9	4.3
—	—	Common Stock Issued for Centennial	18.2	—	—
.3	—	Capital Contribution by Beneficial	.3	—	—
(24.3)	.6	Other	11.1	8.7	13.6
$105.0	$100.2		$347.6	$322.0	$330.0
		Application of Funds			
$ —	$ —	Dividends Paid	$ —	$ —	$ 2.5
85.1	74.2	Loan Originations	301.2	276.8	295.8
20.1	12.0	Increase (Decrease) in Cash	17.5	1.3	(2.5)
(2.0)	(16.2)	Increase (Decrease) in Investment Securities and Certificates of Deposit	(13.9)	23.7	26.4
.3	4.9	Purchase of Property and Equipment	11.8	12.8	4.1
—	—	Acquisition of Centennial	18.2	—	—
1.5	25.3	Other	12.8	7.4	3.7
$105.0	$100.2		$347.6	$322.0	$330.0

See Notes to Financial Statements.

Notes to Financial Statements
(amounts in millions)

1. Summary of Significant Accounting Principles and Practices

a) Affiliation and Combination Basis. The financial statements include the accounts of First Texas Financial Corporation and its subsidiaries on a historical cost basis and do not reflect purchase accounting adjustments related to the acquisition by Beneficial. Prior to February 1979, First Texas owned majority interests in ten savings and loan associations, which were merged into one upon receipt of regulatory approval in February 1979. All material intercompany transactions have been eliminated.

b) Investment Securities. Investment securities are carried at cost, adjusted for the accretion of discount and amortization of premiums. It is the intention of management that investment securities with a market value lower than amortized cost will be held to maturity or sold at minimal losses. Gains or losses on the sale of investment securities, determined on the specific cost identification basis, are reflected at the time of sale.

c) Unearned Discount on Loans Purchased. Certain mortgage loans are presented net of unearned discount, which represents the adjustment of these loans to their estimated fair market value at dates of acquisition. This discount is amortized to income over the estimated remaining life (generally 9 years from date of acquisition) of the mortgage loans by the interest method.

d) Excess Cost of Common Stock of Subsidiaries. Substantially all excess cost is being amortized over forty years by the straight-line method.

e) Allowances for Losses. Specific provisions for losses on mortgage and construction loans are normally charged to income when any major permanent decline occurs in the value of the collateral of a loan. For instalment loans, regular monthly charges against income providing for losses inherent in this type of loan are based on experience plus estimated losses. Interest on loans 90 days or more delinquent is removed from income by charging the reserve for uncollectible interest.

The provision for losses on foreclosed real estate is established by a charge to income when the cost of the property exceeds the estimated net realizable value. In addition, certain foreclosed real estate properties are operated until such time as they can be sold. The cost of operating these properties, net of revenues, is included in other expenses.

f) Joint Ventures. Investments in joint ventures are carried at equity. Joint ventures involved in land development capitalize actual interest and ad valorem taxes incurred during the development phase. When the total investment in a specific real estate project, including holding costs, approximates or exceeds the estimated net realizable value of the property, a valuation allowance is established, if appropriate. First Texas contributes capital to the joint ventures to be used for property development. Interest is usually paid by the joint ventures on the capital contributions and is recognized as income by First Texas to the extent of the profit sharing interests of the other participants. The portion of the interest applicable to First Texas' ownership is deferred and is recognized as income when the property is sold to an outside third party.

g) Property and Equipment. Property and equipment are depreciated by the straight-line method over their estimated useful lives of 3 to 40 years. Maintenance and repairs are expensed as incurred, and renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, with any resulting gains or losses reflected in income.

2. Investment Securities

December 31	1981 Amortized Cost	1981 Market Value	1980 Amortized Cost	1980 Market Value
U.S. Government and Government Agency, Partially Pledged	$ 77.2	$ 71.7	$ 83.5	$ 76.5
Other	32.0	32.0	32.3	32.2
Total Investment Securities	$109.2	$103.7	$115.8	$108.7

3. Loans Receivable (net)

December 31	1981	1980
Mortgage Loans, Partially Pledged	$1,646.9	$1,366.9
Construction Loans	48.5	39.2
Instalment Loans	250.7	133.8
Single Pay Savings Account Loans	8.7	15.1
	1,954.8	1,555.0
Less: Loans in Process	(11.7)	(11.4)
Unearned Discount on Instalment Loans	(92.7)	(44.2)
	1,850.4	1,499.4
Accrued Interest	13.6	10.3
Unearned Discount on Loans Purchased	(37.4)	(.1)
Allowance for Losses	(1.1)	(.8)
Total Loans Receivable (net)	$1,825.5	$1,508.8

Loan commitments outstanding at December 31, 1981 amounted to $34.6.

4. Investment Real Estate (net)

December 31	1981	1980
Wholly-owned	$15.5	$16.0
Joint Ventures*	3.5	3.5
Total	19.0	19.5
Less Allowance for Losses	(.7)	(.8)
Investment Real Estate (net)	$18.3	$18.7

*Consists principally of undistributed earnings.

Joint venture activities consist mainly of land development and sale. During 1980, two joint ventures amounting to $5.4 were acquired as wholly-owned property and First Texas' interest in a third venture of $2.8 was sold to its partners at a profit of $.3.

5. Borrowed Funds and Restrictions on Use of Surplus

The stock in the Federal Home Loan Bank of Little Rock and certain mortgage loans are pledged as collateral to secure advances from the FHLB.

Data for advances from the FHLB for the years ended December 31 are:

	1981	1980	1979
Maximum amount at any month end	$297.1	$200.8	$196.7
Month-end average amount	255.7	194.9	177.8
Average interest rate (based on month-end weighted rates)	12.28%	9.88%	8.88%

Notes Payable are as follows:

December 31	1981	1980
Due to bank in quarterly instalments of $.4 through September 1984 at prime rate plus .75% (maximum rate 9½%)	$ 4.4*	$ 6.0
Reverse repurchase agreements due in various instalments through February 1982, interest rates 11. 62% to 13.00%	28.6**	28.0
Retail repurchase agreements due in various instalments through March 1982 at an average rate of 12.27%	56.7**	—
Federal reserve funds due in June 1982 at 12%	15.0**	—
Other due in various instalments through October 1993, interest rates 7.00% to 8.50%	.4	—
Total Notes Payable	$105.1	$34.0

*Secured by 650 shares of common stock of the savings and loan subsidiary. At December 31 1981, First Texas was not in compliance with all terms of the loan agreement relating to this note. However, the bank involved has agreed to exempt First Texas from these conditions.

**Secured by U.S. government obligations and certain mortgage loans.

Data for Notes Payable for the years ended December 31 are:

	1981	1980	1979
Maximum amount at any month end	$105.1	$34.0	$21.1
Month-end average amount	49.4	18.4	16.3
Average interest rate (based on month-end weighted rates)	14.56%	12.74%	10.37%

The maturities of borrowed funds and their weighted average interest rates are as follows:

December 31	1981		1980	
Maturity	Amount	Weighted Rate	Amount	Weighted Rate
1981	$ —	—%	$168.5	12.06%
1982	338.3	13.34	42.5	9.71
1983	28.1	10.05	22.6	8.85
1984	29.2	15.08	1.2	9.50
1985	.1	8.12	—	—
1986	.1	8.14	—	—
1987-1993	.1	8.50	—	—
Total Borrowed Funds	$395.9	13.23%	$234.8	11.31%

6. Savings Accounts

Savings accounts by rate are as follows:

December 31	1981	1980
5.25%	$ 29.0	$ 6.0
5.50	198.1	225.4
6.50	11.1	24.1
6.75	6.5	17.3
7.50	104.5	159.2
7.75	52.8	99.0
8.00	24.6	36.7
Money Market		
11.59	—	758.5
14.46	1,057.8	—
Other	144.8	63.8
Total Savings Accounts	$1,629.2	$1,390.0
Weighted Rates	12.44%	9.67%

Interest on savings accounts is net of early withdrawal penalties of $6.1 in 1981, $5.9 in 1980 and $1.7 in 1979.

(amounts in millions)

7. Shareholder's Equity and Retained Earnings

Beneficial has agreed to maintain the net worth of the Savings and Loan Division in compliance with applicable regulatory requirements.

The savings and loan subsidiary maintains general reserves required by federal and state regulations. Reserve requirements represent a restriction on retained earnings, and cash dividends may not be charged against restricted retained earnings. During 1980, federal regulations were revised to eliminate the requirement to transfer retained earnings to a separate general reserve account. A summary of retained earnings follows:

December 31	1981	1980
Restricted	$44.5	$44.2
Unrestricted	(2.2)	22.6
Total Retained Earnings	$42.3	$66.8

8. Income Taxes

Results of operations of First Texas subsequent to its acquisition are included in Beneficial's consolidated income tax return. For years in which First Texas has taxable income, the provision for federal income taxes for financial statement purposes is approximately the same as it would have been had a separate return been filed. Beneficial had a taxable loss in 1981. Therefore, under rules prescribed by the Internal Revenue Code and the regulations thereunder, First Texas' 1981 taxable loss is first applied against taxable income of First Texas prior to its acquisition by Beneficial. Taxable losses not fully absorbed in this manner are applied against taxable income on Beneficial's consolidated return subsequent to the acquisition of First Texas. The tax benefit for financial statement purposes is computed on this basis.

Under conditions prescribed by the Internal Revenue Code, deductions from taxable income, within limitations, are permitted for additions to bad debt reserves. In computing federal income taxes for financial statement purposes, such deductions were $.6 for 1981, $.3 for 1980 and $9.2 for 1979. Retained earnings at December 31, 1981 includes deductions totaling $61.7 before reduction by $15.9 for purchase accounting adjustments, for which no provision for federal income taxes has been made. If, in the future, the amounts deducted are used for any purpose other than to absorb losses, a tax liability will be imposed at the then current federal income tax rate. It is not contemplated that tax bad debt reserves will be used in any manner which will create a federal income tax liability. However, if at December 31, 1981 the total amount had been used other than to absorb losses, this liability would have been approximately $28.4. Investment credit is included in earnings at the time of its realization.

A reconciliation between the expected and the effective federal income tax rates is as follows:

	1981	1980	1979
Expected Federal Income Tax Rate	(46.0)%	(46.0)%	46.0%
Adjustments			
Bad Debt Deduction Adjusted for Gain on Sales of Foreclosed Real Estate and Provision for Losses	(1.0)	(12.9)	(25.6)
Minimum Tax on Tax Preference Items	—	—	1.3
Investment Tax Credit	(.9)	(4.1)	—
Earned Discount on Loans of Purchased Subsidiaries	(6.2)	(3.8)	(.7)
Bad Debt Deduction Recapture	23.4	—	—
Other	.4	4.6	1.5
Effective Federal Income Tax Rate	(30.3)%	(62.2)%	22.5%

Deferred taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes. Charges (credits) to the deferred tax provision are related to:

	1981	1980	1979
Adjustment to Cash Basis of Accounting	$.2	$.6	$1.2
Holding Costs on Investment Real Estate	—	.3	(.2)
Total Deferred Taxes	$.2	$.9	$1.0

9. Employees' Retirement Plan

First Texas has a variable unit benefit plan which is integrated with social security and is administered by a Retirement Committee. Benefits under the plan are computed on an actuarial basis and become fully vested when an employee has completed 10 years of service. Accrued pension costs are funded. Sufficient contributions are made to amortize unfunded past service costs (aggregating $.8 at January 1, 1981, the latest actuarial valuation date) over a 20-year period. The amounts charged to income amounted to $.7 for 1981, $.8 for 1980 and $.7 for 1979. Accumulated plan benefits and plan net assets for the company's defined benefit plan are:

January 1	1981	1980	1979
Actuarial Present Value of Accumulated Plan Benefits			
Vested	$4.1	$3.7	$3.2
Nonvested	.7	.6	.6
Total Actuarial Present Value of Accumulated Plan Benefits	$4.8	$4.3	$3.8
Net Assets Available for Benefits	$7.3	$5.9	$4.8

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.0%.

10. Contingencies

First Texas is the defendant in lawsuits which have arisen during the ordinary course of business. In one lawsuit alleging failure to honor a loan commitment, a judgement of $1.0 has been rendered against First Texas. The management of First Texas believes that it has meritorious defenses which it plans to pursue upon appeal, and that the effect on shareholder's equity, if any, from the disposition of these suits will be immaterial.

11. Centennial Acquisition

In April 1981 Beneficial acquired Centennial Holding Company (CHC). First Texas issued 200,991 shares of its common stock to CHC in exchange for its wholly-owned subsidiary, Centennial Savings Association (CSA). First Texas recorded its investment in CSA and its common stock issued at Beneficial's cost ($18.2). The excess cost is being amortized over forty years by the straight-line method. A summary of the acquisition of CSA is as follows:

Loans Acquired, Net of $42.0 Discount	$253.4
Savings Accounts	(239.9)
Other Liabilities, Net	(44.8)
Excess Cost	49.5
	$ 18.2

The purchase accounting adjustments of $42.0 (after taxes) relating to the value of the acquired loans is being amortized under the interest method over the estimated lives of the loans.

A pro forma summary of consolidated operations for 1981 and 1980, assuming the acquisition had been made on January 1 of each year, is as follows:

	1981	1980
Total Revenue	$222.6	$203.0
Net Income (Loss)	(23.8)	4.3

Accountants' Opinion

The Board of Directors
Beneficial Corporation

We have examined the consolidated balance sheets of Beneficial Corporation Savings and Loan Division (First Texas Financial Corporation and subsidiaries) as of December 31, 1981 and 1980 and the related consolidated statements of income and retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Beneficial Corporation Savings and Loan Division at December 31, 1981 and 1980 and the results of its operations and changes in its financial position for each of the years in the three-year period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Dallas, Texas
February 8, 1982

Merchandising Division
Balance Sheet

(in millions) December 31	1981	1980
Assets		
Current Assets		
Cash	$ 7.5	$ 10.4
Receivables (Note 1b)	272.1	280.5
Less Unearned Finance Charges	(8.8)	(10.6)
	263.3	269.9
Less Allowance for Doubtful Receivables	(15.0)	(14.6)
	248.3	255.3
Receivables Transferred to Beneficial (Notes 1b and 10)	(123.6)	(118.3)
Net Receivables	124.7	137.0
Equity in Receivables Transferred to Beneficial (Note 10)	6.6	6.4
Inventories (Note 1c)	135.9	122.9
Other Current Assets (Note 5)	6.1	3.0
Total Current Assets	280.8	279.7
Property and Equipment (at cost, less accumulated depreciation of $37.6 and $35.0) (Note 1e)	56.6	62.4
Other Assets	.6	1.2
Total	$ 338.0	$ 343.3
Liabilities and Shareholder's Equity		
Current Liabilities		
Long-Term Debt Due Within One Year (Note 7)	$ 5.2	$ .5
Accounts Payable	38.9	45.7
Payable to Beneficial (Note 1d)	8.1	9.0
Other Current Liabilities (Note 6)	50.7	52.7
Total Current Liabilities	102.9	107.9
Long-Term Debt (Note 7)	31.7	38.9
Deferred Federal Income Taxes (Note 9)	8.0	8.1
Total Liabilities	142.6	154.9
Shareholder's Equity (including Retained Earnings of $121.0 and $114.0) (Note 7)	195.4	188.4
Total	$ 338.0	$ 343.3

See Notes to Financial Statements.

Merchandising Division
Statement of Income and Retained Earnings

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1981	1980	(in millions)	1981	1980	1979
$152.2	$163.6	**Net Sales and Other Revenue**	$645.7	$669.5	$750.7
		Expenses			
121.5	130.0	Cost of Sales (including certain buying and occupancy expenses)	515.8	542.1	592.5
25.5	28.4	Selling and Administrative	103.3	109.9	141.0
—	—	Provision for Store Closings and Other Items (Note 3)	—	—	11.2
—	—	Provision for Customs Duties (Note 4)	—	2.6	—
1.2	1.2	Interest	4.7	5.3	17.0
—	—	Gain on Sale of Real Estate (Note 5)	—	—	(1.2)
148.2	159.6	Total	623.8	659.9	760.5
4.0	4.0	**Income (Loss) Before Income Taxes**	21.9	9.6	(9.8)
		Provision for Income Taxes (Note 9)			
		Federal			
—	1.9	Current	7.0	3.9	(3.9)
1.1	(.5)	Deferred	1.7	(.1)	(1.0)
.2	.5	State	1.2	1.0	(.3)
1.3	1.9	Total	9.9	4.8	(5.2)
2.7	2.1	**Net Income (Loss)**	12.0	4.8	(4.6)
123.3	113.8	**Retained Earnings, Beginning of Period**	114.0	111.1	183.8
5.0	1.9	Dividends (Note 2)	5.0	1.9	68.1
$121.0	$114.0	**Retained Earnings, End of Period**	$121.0	$114.0	$111.1

See Notes to Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The Merchandising Division consists of Western Auto Supply Company and subsidiaries. Spiegel, Inc., formerly a component of the Merchandising Division, has been sold. Prior period amounts have been restated.

On December 31, 1979, Western Acceptance Company was dividended to Beneficial Corporation. As a result of this change, handling charges earned on consumer receivables sold to Beneficial Corporation are excluded from net sales and other revenue while selling and administrative expenses reflect a charge to Beneficial Corporation for the cost of collecting and administering the receivables sold. The necessity to borrow short-term funds was largely eliminated with the sale of the consumer receivables and interest expense was reduced substantially. On January 1, 1980, Midland International Corporation was restructured and transferred to Western Auto from Beneficial.

Several major changes have been made to improve operations. In September 1979, Western Auto closed 116 unprofitable retail stores. In March 1981 the distribution center in St. Louis was closed and the distribution of the merchandise was transferred to the under-utilized distribution center in Salina, Kansas. Management has developed a new retail merchandise strategy centered around automotive after market products and services and at the end of 1981 has converted or opened 42 company stores designed as automotive supermarkets. In 1981 these stores reflected a sales increase of approximately 31 percent. Additional company-owned stores will be converted in 1982. This improved merchandising plan will be used also to improve the vitality of associate dealers by sharpening their focus on automotive products and services.

Results of Operations

Net sales and other revenue increased slightly in 1979 and decreased 11% and 4% in 1980 and 1981, respectively, compared to the same periods in the prior year. The decrease in 1980 was related primarily to the closing of unprofitable retail and associate stores. Also contributing to the 1980 decrease were the transfer of Western Acceptance to Beneficial in December 1979 and the withdrawal of Midland from the consumer electronics market. The decrease in 1981, both retail and associate, was due to fewer outlets in operation.

Cost of sales as a percentage of net sales and other revenue remained fairly constant throughout the three years. Competitive pressures on pricing and the impact of promotional costs in introducing the automotive stores were largely offset by increased efficiencies in distribution costs, including freight.

Selling and administrative expenses declined each year due to operating fewer stores, coupled with reductions in management personnel and advertising as well as operating efficiencies, including the impact of the reorganization discussed in the Introduction. The major increase during this period was the $4.4 million increase in accounts written off in 1981 which reflects adverse changes in the bankruptcy law and the general economy and the impact of the shift from instalment receivables to revolving credit.

Interest expense increased 13% in 1979, decreased 68% in 1980, and decreased 11% in 1981 compared to the prior year. Increased interest expense during 1979 reflected escalating interest rates despite lower average borrowings. During 1980, as a result of the dividending of Western Acceptance to Beneficial, Western Auto began financing short-term capital needs by selling consumer receivables to Beneficial. This resulted in the substantial reduction in interest expense in 1980 and 1981.

The improvements in operating efficiencies and the reduction in expenses resulting from store closings outweighed the reduction in sales and enabled the company to reflect substantial improvements in net income in 1981 and 1980.

Capital Resources and Liquidity

The Merchandising Division finances its operations largely through the sale of consumer receivables to Beneficial, receivables collections, and its own cash flow.

To counterbalance the adverse effects of inflation and recessionary trends, the company has taken positive steps to improve its liquidity. Net working capital increased from $168.8 million at December 31, 1979 to $177.9 million at December 31, 1981 while the ratio of current assets to current liabilities increased from 2.49 to 2.73.

Inventories at December 31, 1981, 1980 and 1979 were $135.9 million, $122.9 million and $149.8 million, respectively. The 1981 increase over the prior year was the result of the expanded automotive merchandise lines and the softer than anticipated sales in the last months of 1981. The decrease from 1979 to 1980 resulted from fewer retail stores and better inventory management.

In January 1982, the company sold its St. Louis distribution center for $6.3 million. Also in January 1982, Western Auto acquired in the market and retired $4.7 million of outstanding debentures.

Merchandising Division
Statement of Changes in Financial Position

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1981	1980	(in millions)	1981	1980	1979
		Source of Funds			
$ 2.7	$ 2.1	Net Income (Loss)	$ 12.0	$ 4.8	$ (4.6)
		Items Not Requiring (Providing) Working Capital			
1.8	1.9	Depreciation	7.2	7.9	8.4
(.1)	.6	Deferred Income Taxes	(.1)	.7	1.6
4.4	4.6	Funds Provided by Operations	19.1	13.4	5.4
—	—	Long-Term Debt Issued	—	—	1.7
3.8	.8	Disposals of Property and Equipment and Transfer to Current Assets	4.6	1.6	3.6
—	.1	Other	.6	1.6	.1
$ 8.2	$ 5.5		$ 24.3	$ 16.6	$ 10.8
		Application of Funds			
$ 1.2	$ .4	Additions to Property and Equipment	$ 6.0	$ 2.6	$ 9.3
4.8	.7	Reduction of Long-Term Debt	7.2	4.2	2.5
5.0	1.9	Dividends Paid	5.0	1.9	68.1
—	—	Other	—	—	2.2
(2.8)	2.5	Increase (Decrease) in Working Capital	6.1	7.9	(71.3)
$ 8.2	$ 5.5		$ 24.3	$ 16.6	$ 10.8
		Changes in Working Capital			
		Increase (Decrease) in Current Assets			
$ .4	$ 3.0	Cash	$ (2.9)	$ (4.0)	$ 5.4
(12.5)	11.0	Net Receivables	(12.3)	38.7	(172.4)
(.7)	(1.9)	Equity in Receivables Transferred	.2	(2.7)	9.1
(4.8)	(12.4)	Inventories	13.0	(26.9)	(3.1)
1.3	(3.7)	Other Current Assets	3.1	(1.0)	(3.2)
(16.3)	(4.0)		1.1	4.1	(164.2)
		Increase (Decrease) in Current Liabilities			
4.7	(.2)	Long-Term Debt Due Within One Year	4.7	—	(75.2)
(14.8)	(6.2)	Accounts Payable	(6.8)	(11.4)	(23.6)
1.7	3.5	Payable to Beneficial	(.9)	4.0	5.0
(5.1)	(3.6)	Other Current Liabilities	(2.0)	3.6	.9
(13.5)	(6.5)		(5.0)	(3.8)	(92.9)
$ (2.8)	$ 2.5	**Increase (Decrease) in Working Capital**	$ 6.1	$ 7.9	$ (71.3)

See Notes to Financial Statements.

(amounts in millions)

1. Summary of Significant Accounting Principles and Practices

a) Affiliation and Basis of Presentation. The Merchandising Division is comprised of Western Auto Supply Company and subsidiaries. On August 31, 1981 Beneficial signed a definitive agreement for the sale of the stock of its wholly-owned subsidiary, Spiegel, Inc., formerly a component of the Merchandising Division. The transaction was completed in January of 1982. Spiegel has been removed from the Merchandising Division financial statements and included in discontinued operations of Beneficial. Prior period amounts pertaining to the Merchandising Division have been restated to exclude Spiegel.

The effect of this restatement on net sales and other revenue and net income (loss) of the Merchandising Division is as follows:

	1980	1979
Net sales and other revenue		
As previously reported	$1,081.2	$1,176.9
Adjustment for discontinued operations	411.7	426.2
Restated	$ 669.5	$ 750.7
Net income (loss)		
As previously reported	$ 5.6	$ 3.5
Adjustment for discontinued operations	.8	8.1
Restated	$ 4.8	$ (4.6)

Certain prior period amounts have been reclassified to conform with the 1981 presentation.

b) Receivables and Finance Charges. Receivables consist of retail customer and associate store customer instalment receivables for which finance charges are recorded in income by the sum-of-years-digits method; revolving accounts for which finance charges are recorded in income when billed to the customers; and amounts due from associate store owners for merchandise, which normally do not earn finance charges if paid within the trade terms.

In accordance with merchandising industry practice, receivables include $92.4 and $101.1 at December 31, 1981 and 1980 of amounts becoming due after one year.

c) Inventories. Inventories are stated at the lower of cost (first-in, first-out) or replacement market, after considering obsolescence.

d) Income Taxes. Results of operations are included in the consolidated federal income tax return of Beneficial. The provision for federal income taxes for financial statement purposes is approximately the same as it would have been had Western Auto filed a separate return. The item Payable to Beneficial includes federal income taxes payable of $8.1 and $6.8 at December 31, 1981 and 1980.

e) Property and Equipment. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred. Expenditures for renewals and betterments are capitalized. Upon sale, replacement or retirement of property and equipment, the cost and accumulated depreciation or amortization are removed from the accounts and any gain or loss is reflected in income.

f) Employee Retirement Plans. Current retirement plan costs and amortization of prior service costs over a forty-year period are charged to expense.

g) Accrual for Merchandise Warranties. Accruals are provided for anticipated costs relating to merchandise under warranty not covered by manufacturers' warranties.

2. Transfer of Subsidiary Company

At December 31, 1979 Western Auto declared a dividend of the capital stock of Western Acceptance Company, a wholly-owned subsidiary prior to December 31, 1979, to Beneficial. The dividend was $68.1, the net assets of Acceptance on such date. Net income of Acceptance included in the results of operations for the year ended December 31, 1979 was $4.2.

3. Provision for Store Closings and Other Items

In September 1979 Western Auto closed 116 unprofitable retail stores and provided $8.5 for the anticipated costs of store closings.

During 1979 Western Auto began to convert certain domestic retail instalment receivables, which have historically been costly to administer, to revolving receivables and to sell instalment receivables which were not converted. In the fourth quarter of 1979, Western Auto provided $2.7 for the anticipated loss from the sale of such instalment receivables.

4. Provision for Customs Duties

At March 31, 1980 Western Auto and its wholly-owned subsidiary, Midland International Corporation, established a provision of $2.6 as a result of an agreement for the settlement of claims for dumping duties assessed by the U.S. Customs Service on television sets imported from Japan by Midland and Western Auto through March 1979. However, the U.S. government has been enjoined from putting the settlement into effect pending determination of whether the government had authority to enter into the settlement.

Prior to entering into the settlement agreement, the U.S. Customs Service had assessed Midland $5.1 for dumping duties on T.V. sets imported by Midland from Japan from 1969 through 1974. Midland filed protests contesting these assessments. If the settlement is not consummated, Midland estimates that additional assessments for T.V. sets imported after 1974 will not exceed $3.0.

(amounts in millions)

Western Auto, which has not been assessed any dumping duties, estimates that assessments on T.V. sets of Japanese manufacture it imported from January 1976 to approximately April 1977 would not exceed $5.1, assuming Customs uses methods similar to those utilized with respect to Midland's imports. Western Auto continued to import these T.V. sets through December 1978 but is presently unable to estimate what assessments, if any, might be made on such sets if the pending settlement is set aside.

5. Sale of Real Estate

In 1979 Western Auto realized a gain of $1.2 ($.9 after taxes) from the sale of excess land.

In the fourth quarter of 1981 Western Auto contracted to sell one of its distribution facilities. The sale was completed in January 1982 at which time Western Auto received the full purchase price for the facility. The gain on the sale of $2.7 ($2.0 after taxes) will be included in income in 1982. Property and equipment held for resale is included in current assets.

6. Other Current Liabilities

December 31	1981	1980
Accrued Merchandise Warranties	$15.3	$16.3
Accrued Salaries and Wages	7.0	7.4
Deferred Federal Income Taxes	.4	—
Other	28.0	29.0
Total Other Current Liabilities	$50.7	$52.7

7. Long-Term Debt and Restrictions on Retained Earnings

A summary of long-term debt is as follows:

December 31	1981	1980
Instalment Notes 5.05% to 21.75%	$ 2.3	$ 2.7
Sinking Fund Debentures, 7.85% due 1996, with annual payments	34.6	36.7
	36.9	39.4
Less long-term debt due within one year	(5.2)	(.5)
Long-Term Debt	$31.7	$38.9

Annual long-term debt and sinking fund payments are as follows:

1982	$ 5.2
1983	.4
1984	.4
1985	.2
1986	.6
1987 and after	30.1
	$36.9

At December 31, 1981, the 7.85% debentures sinking fund requirement has been met for 1982, 1983 and a portion of 1984 through the purchase and cancellation of the necessary debentures. During January 1982 Western Auto purchased for $2.7 and cancelled an additional $4.7 of outstanding debentures resulting in a gain of $2.0 which will be included in 1982 income. The face amount of these debentures has been classified as long-term debt due within one year in the December 31, 1981 balance sheet.

The indenture relating to the 7.85% sinking fund debentures contains covenants that restrict the payment of dividends, restrict the purchase and retirement of Western Auto capital stock and limit investments and indebtedness. The amount of unrestricted retained earnings at December 31, 1981 was $45.3.

8. Profit Sharing and Retirement Plans

Western Auto and its subsidiaries have trusteed profit sharing plans and Western Auto has a trusteed retirement plan for substantially all full-time employees.

Contributions to the retirement plan charged to earnings for 1981, 1980 and 1979 were $4.2, $4.7 and $4.5, respectively. No contributions were made by Western Auto to the profit sharing plans in 1981, 1980 and 1979. Accumulated plan benefits and plan net assets for the defined benefit retirement plan were as follows:

January 1	1981	1980	1979
Actuarial Present Value of Accumulated Plan Benefits			
Vested	$21.4	$24.1	$24.9
Nonvested	2.5	2.7	3.8
Total Actuarial Present Value of Accumulated Plan Benefits	$23.9	$26.8	$28.7
Net Assets Available for Benefits	$36.8	$32.1	$27.6

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 10.4% in 1981, 8.4% in 1980 and 6.5% in 1979.

9. Deferred Federal Income Taxes

Deferred federal income taxes result from timing differences in recognition of income and expense for tax and financial reporting purposes. The sources and the tax effects of these differences were as follows:

	1981	1980	1979
Income from credit sales	$ (.4)	$ 2.1	$ (.5)
Depreciation	.3	.4	.6
Provision for doubtful accounts	.5	(.3)	(.1)
Advertising costs	.5	(2.2)	(.5)
Other	.8	(.1)	(.5)
	$ 1.7	$ (.1)	$ (1.0)

Notes to Financial Statements *(concluded)*

10. Transactions with Affiliates

Western Auto sells, to Beneficial with recourse, customer receivables generated by retail stores and associate stores. Western Auto is paid 95% of the gross customer receivables sold and maintains the reserve for credit losses applicable to these receivables. Western Auto guarantees that the net earnings related to the receivables sold will not be less than 150% of interest requirements on debt and rentals for lease properties related directly to these receivables. Administration of the credit function for these receivables is performed by Western Auto. During 1981 and 1980 Beneficial paid Western Auto $15.7 and $13.3, respectively, for administration of the receivables.

Premiums paid to an insurance subsidiary of Beneficial for employee group life and accident and health insurance for 1981, 1980 and 1979 were $3.3, $3.7 and $3.9, respectively.

Western Auto sold to Beneficial in 1980 and 1979 for $1.2 and $2.6, instalment receivables with a face value of $2.2 and $3.6.

11. Leases

Western Auto and its subsidiaries occupy retail stores and use certain equipment and facilities under various operating leases. Rent expense, principally for retail facilities, for 1981, 1980 and 1979 was $9.3, $8.9 and $12.1, respectively. Lease commitments on real property are:

1982	$ 6.4
1983	5.7
1984	5.0
1985	4.3
1986	3.2
1987-1991	7.0
1992-1996	2.1
1997-2001	.6
	$34.3

It is expected that, in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum annual lease commitments will not be less than those shown for 1982. The minimum annual rentals do not include maintenance costs, real estate taxes, insurance, or additional amounts payable on percentage of sales.

12. Supplementary Financial Data Adjusted for the Effects of Changing Prices (Unaudited)

Supplementary inflation adjusted information prepared in accordance with Financial Accounting Standards Board Statement No. 33 is included in the Form 10-K of Western Auto filed with the Securities and Exchange Commission.

Accountants' Opinion

The Board of Directors
Beneficial Corporation

We have examined the consolidated balance sheets of Beneficial Corporation Merchandising Division (Western Auto Supply Company and subsidiaries—see Note 1(a)) as of December 31, 1981 and 1980 and the related consolidated statements of income and retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Beneficial Corporation Merchandising Division at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Kansas City, Missouri
February 8, 1982

Beneficial Corporation and Subsidiaries
Eleven-Year Summary

Supplemental Information		
(amounts in millions, except where noted)	1981	1980
During The Year		
Consolidated		
Income From Continuing Operations	$ 38.9	98.1(a
Income (Loss) From Discontinued Operations	$ (46.6)	(4.3)
Net Income	$ (7.7)	93.8(a
Earnings Per Common Share (dollars)		
Continuing Operations	$ .97	3.63(a
Discontinued Operations	$ (2.08)	(.19)
Net Income (Loss)	$ (1.11)	3.44(a
Average Number of Common Shares	22.3	22.3
Dividends Paid per Common Share (dollars)	$ 2.00	2.00
Finance Division		
Volume of Finance Receivables Acquired less Unearned Finance Charges (c	$2,708.7	2,734.5
Number of Finance Receivables Acquired (c	1.4	1.8
Average Amount of Transaction (dollars) (c	$ 1,940	1,520
% of Monthly Cash Principal Collections to Average Monthly Balances	3.85	4.01
% of Finance Receivables Charged Off (less recoveries) to Average Monthly Balances	2.17	2.34
Revenue	$1,466.1	1,323.2
Interest	$ 458.7	395.4
Provision for Credit Losses (less recoveries)	$ 108.3	107.2
Total Expenses	$1,355.0	1,166.7(a
Income Before Income Taxes	$ 99.5	154.5(a
Income From Finance Division	$ 61.9	100.6(a
% of Income from Finance Division to Revenue	4.22	7.60(a
Savings and Loan Division		
Revenue	$ 212.6	164.5
Income (Loss) Before Income Taxes	$ (35.2)	(2.1)
Net Income (Loss) of Savings and Loan Division	$ (24.5)	(.8)
% of Net Income (Loss) to Revenue	(11.67)	(.49)
Equity of Beneficial in Net Income (Loss) plus Purchase Accounting Adjustments	$ (21.3)	3.1
Merchandising Division		
Net Sales and Other Revenue	$ 645.7	669.5
Income (Loss) Before Income Taxes	$ 21.9	9.6
Income (Loss) From Merchandising Division	$ 12.0	4.8
% of Income (Loss) from Merchandising Division to Net Sales and Other Revenue	1.86	.72
Interest Expense, After Income Taxes, Related to Investment in Non-Consolidated Subsidiaries	$ (13.7)	(10.4)
At Year End		
Consolidated		
Total Assets	$6,340.2	6,031.4(a
Short-Term Debt	$1,128.9	814.4
Long-Term Debt	$3,357.3	3,336.0
Redeemable Preferred Stock	$ 125.0	125.0
Shareholders' Equity excluding Redeemable Preferred Stock	$ 878.5	954.7(a
Number of Employees	16,800	23,300
Number of Holders of Common Stock	29,400	31,200
Finance Division		
Principal of Finance Receivables	$4,445.8	4,252.9
Reserve for Credit Losses	$ 196.5	194.8
% of Reserve for Credit Losses to Principal of Finance Receivables	4.42	4.58
% of Finance Receivables (account balances, loans only) with Payments More than Two Months Delinquent (based upon recency of payment) (d	1.54	1.55
Number of Accounts	2.5	3.2
Average Account Balance (dollars)	$ 1,811	1,344

a) Restated for Change in Accounting Principle.
b) Excludes Extraordinary Credit of $12.1 ($.64 per share) from sale of undeveloped land by a non-consolidated subsidiary.
c) Excludes bank credit card receivables.
d) Excludes receivables of West German subsidiary.

1979	1978	1977	1976	1975	1974	1973	1972	1971
96.5(a	95.8	82.3	97.7	71.3	60.8	69.7	78.6	68.2
3.8	2.5	3.4	2.7	2.1	2.9	6.1	3.6	.5
100.3(a	98.3	85.7	100.4	73.4	63.7(b	75.8	82.2	68.7
4.04(a	4.08	3.48	4.39	3.23	2.68	3.18	3.72	3.19
.17	.11	.16	.13	.11	.15	.33	.20	.03
4.21(a	4.19	3.64	4.52	3.34	2.83(b	3.51	3.92	3.22
22.2	22.1	21.8	20.4	19.1	19.1	18.7	18.4	18.1
1.95	1.70	1.60	1.4375	1.25	1.25	1.20	1.10	1.0667
3,226.4	2,690.3	2,261.9	1,900.3	1,553.6	1,669.2	1,739.4	1,632.9	1,461.8
2.8	2.4	2.1	1.8	1.5	1.9	2.2	2.1	1.9
1,177	1,098	1,063	1,057	1,028	885	799	759	753
4.37	4.43	4.34	4.35	4.28	4.45	4.94	4.90	4.82
1.87	1.57	1.74	2.04	2.42	2.12	1.82	1.56	1.57
982.9	769.5	640.4	536.5	460.3	452.5	416.3	376.9	336.1
243.8	162.4	124.1	95.6	82.7	90.8	76.6	63.3	57.0
102.4	70.9	65.7	60.4	54.8	51.1	40.8	34.0	28.6
828.1(a	593.2	483.4	399.3	344.2	345.8	302.6	263.9	229.8
155.4(a	174.1	153.7	132.5	110.0	95.5	112.6	114.7	107.8
98.8(a	101.5	86.4	73.0	58.3	51.2	58.7	65.1	56.6
10.05(a	13.19	13.49	13.61	12.67	11.31	14.10	17.27	16.84
154.4	133.1	115.9	102.9	87.8	78.7	64.7	50.5	37.6
17.8	16.4	11.3	3.7	2.5	4.7	8.8	7.5	4.4
13.8	10.8	8.2	2.9	2.7	3.9	7.8	5.9	3.8
8.94	8.11	7.08	2.82	3.08	4.96	12.06	11.68	10.11
12.6	2.5	—	—	—	—	—	—	—
750.7	745.8	801.7	847.0	653.1	643.2	632.0	566.8	498.7
(9.8)	(3.2)	2.6	59.8	37.5	29.3	29.2	34.4	30.2
(4.6)	(1.7)	1.4	30.1	18.1	14.6	15.3	17.3	15.1
(.61)	(.23)	.17	3.55	2.77	2.27	2.42	3.05	3.03
(10.3)	(6.5)	(5.5)	(5.4)	(5.1)	(5.0)	(4.4)	(3.8)	(3.5)
6,029.2(a	3,881.1	3,321.2	2,727.9	2,545.0	2,435.0	2,356.3	2,285.4	2,094.9
974.4	520.0	413.9	301.4	309.1	289.9	265.6	255.7	298.3
3,324.7	2,210.0	1,861.7	1,492.9	1,355.3	1,360.5	1,353.3	1,302.4	995.0
103.0	—	—	—	—	—	—	—	—
926.1(a	886.5	835.1	791.2	723.8	689.0	637.5	591.2	539.4
26,400	25,500	25,100	24,900	26,600	29,300	32,900	33,100	32,000
32,000	33,200	32,700	31,700	29,900	30,000	29,300	29,300	29,400
4,264.0	3,015.4	2,526.2	2,085.0	1,828.4	1,781.5	1,700.7	1,579.7	1,441.3
203.7	147.8	126.3	106.3	95.0	92.6	86.7	82.1	76.4
4.78	4.90	5.00	5.10	5.20	5.20	5.10	5.20	5.30
1.26	1.15	1.08	1.19	1.29	1.28	1.15	.99	.89
3.7	3.0	2.5	2.1	2.0	2.1	2.2	2.2	2.1
1,154	1,013	1,031	995	911	833	756	711	685

Beneficial Corporation and Subsidiaries
Data by Calendar Quarter

Supplemental Information			1981
(in millions, except per share figures)	First Quarter	Second Quarter	Third Quarter
Revenue			
Finance Division	$ 337.3	$ 346.2	$ 391.2
Savings and Loan Division	43.5	54.1	56.2
Merchandising Division	154.6	173.6	165.3
Total	$ 535.4	$ 573.9	$ 612.7
Operating Income (Loss)			
Finance Division (a	$ 28.0	$ 31.6	$ 16.4
Savings and Loan Division	(4.0)	(8.3)	(7.8)
Merchandising Division	29.6	36.4	33.2
Total (a	$ 53.6	$ 59.7	$ 41.8
Net Income (Loss)			
Finance Division (a	$ 17.4	$ 16.8	$ 4.8
Equity in Net Income of Savings and Loan Division plus Purchase Accounting Adjustments	(1.3)	(3.0)	(2.6)
Merchandising Division	2.2	4.4	2.7
Interest Expense, After Income Taxes, Related to Investment in Non-consolidated Subsidiaries	(3.1)	(3.4)	(3.6)
Income From Continuing Operations (a	15.2	14.8	1.3
Discontinued Operations, After Income Taxes			
Income (Loss)	(1.1)	.3	.3
Interest Expense Related to Investment	(1.6)	(1.6)	(1.3)
Loss on Disposal	—	—	(40.7)
	(2.7)	(1.3)	(41.7)
Net Income (Loss) (a	$ 12.5	$ 13.5	$ (40.4)
Earnings Per Common Share			
Continuing Operations (a	$ .49	$ .47	$ (.13)
Discontinued Operations	(.12)	(.06)	(1.87)
Net Income (Loss) (a	$ .37	$ .41	$ (2.00)
Common Stock			
High Sales Price	$ 24.00	$25.375	$25.125
Low Sales Price	19.50	20.75	19.25
Dividends Paid Per Share	.50	.50	.50

a) Restated for Change in Accounting Principle.

		1980				
Fourth Quarter	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
$ 391.4	$1,466.1	$ 327.2	$ 334.3	$ 324.4	$ 337.3	$1,323.2
58.8	212.6	39.0	41.0	41.0	43.5	164.5
152.2	645.7	164.1	167.5	174.3	163.6	669.5
$ 602.4	$2,324.4	$ 530.3	$ 542.8	$ 539.7	$ 544.4	$2,157.2
$ 35.1	$ 111.1	$ 39.1	$ 42.5	$ 43.7	$ 31.2	$ 156.5
(15.1)	(35.2)	2.7	(2.6)	(2.2)	—	(2.1)
30.7	129.9	27.9	31.1	34.8	33.6	127.4
$ 50.7	$ 205.8	$ 69.7	$ 71.0	$ 76.3	$ 64.8	$ 281.8
$ 22.9	$ 61.9	$ 21.6	$ 29.7	$ 26.6	$ 22.7	$ 100.6
(14.4)	(21.3)	3.0	(.9)	(.6)	1.6	3.1
2.7	12.0	(.5)	1.1	2.1	2.1	4.8
(3.6)	(13.7)	(2.4)	(2.6)	(2.6)	(2.8)	(10.4)
7.6	38.9	21.7	27.3	25.5	23.6	98.1
—	(.5)	(1.7)	(2.9)	.9	4.5	.8
(.9)	(5.4)	(1.2)	(1.3)	(1.3)	(1.3)	(5.1)
—	(40.7)	—	—	—	—	—
(.9)	(46.6)	(2.9)	(4.2)	(.4)	3.2	(4.3)
$ 6.7	$ (7.7)	$ 18.8	$ 23.1	$ 25.1	$ 26.8	$ 93.8
$ .14	$ .97	$ .78	$ 1.04	$ .94	$ .87	$ 3.63
(.03)	(2.08)	(.13)	(.19)	(.01)	.14	(.19)
$ .11	$ (1.11)	$ .65	$ .85	$ .93	$ 1.01	$ 3.44
$ 21.50		$ 27.00	$23.875	$24.625	$ 23.75	
18.50		17.625	17.75	20.00	18.125	
.50	$ 2.00	.50	.50	.50	.50	$ 2.00

Beneficial Corporation

Officers

Finn M. W. Caspersen	Chairman of the Board of Directors and Chief Executive Officer
Gerald L. Holm	Vice Chairman
Robert A. Tucker	Member of the Office of the President and Chief Financial Officer
William A. Gross	Senior Vice President —Taxes and Accounting Policy
Kostas Gussis	Senior Vice President —Audit
James H. Gilliam, Jr.	Senior Vice President —Legal
Andrew C. Halvorsen	Senior Vice President —Finance
John R. Doran	Senior Vice President and Treasurer
Kenneth J. Kircher	Vice President and Secretary
Robert R. Meyer	Vice President and Controller
William H. H. Ely, Jr.	Vice President
William V. Krause	Vice President
Bruce A. Olster	Vice President —Federal Tax

Beneficial Management Corporation

Executive Committee

David J. Farris	President and Chief Executive Officer, Chairman of the Executive Committee
Finn M.W. Caspersen	
Gerald L. Holm	
R. Donald Quackenbush	Executive Vice President
Robert A. Tucker	
Gordon L. Wadmond	Executive Vice President

Senior Vice Presidents

Richard H. Bate	Counsel
Robert P. Freeman	Personnel
Robert E. Gaegler	Insurance
Robert M. Grohol	Operating
Charles E. Hance	Legal & Litigation
J. Edward Kerwan	Data Processing
W. James Murphy	Operating
Clifford W. Snyder	Advertising & Press Relations
Robert E. Styles	Operating
David B. Ward	Government Relations

Operating Vice Presidents

James L. Arpin	Midwest Department
Pierre E. Bashe	California North Department
George B. Brush	Northeastern Department
John France	United Kingdom Department
James L. Frans	Southern Department
Peter J. Gimino, Jr.	California South Department
J. Gaetan Helms	Montreal Department
Forrest B. Kinney	Gulf Coast Department
Manfred E. Niebisch	West German Department
Charles L. Rounsavall	Midsouth Department
Ronald E. Schoen	Toronto Department
James R. Warehime	North Central Department
Daniel Wilczek	Pennsylvania Department
Murray W. Wilson	Australian Department

BENICO Insurance Group

R. Donald Quackenbush	Chairman of the Board and Chief Executive Officer
Robert E. Gaegler	President
James T. Kearns	Executive Vice President

Beneficial Leasing Group, Inc.

Paul M. Finfer	President

First Texas Financial Corporation

J. Michael Cornwall	Chairman of the Board and Chief Executive Officer
Robin R. Glackin	President and Chief Operating Officer

Western Auto Supply Company

John T. Lundegard	Chairman of the Board and Chief Executive Officer
Robert W. McFadden	Executive Vice President and Chief Operating Officer

Peoples Bank and Trust Company

Frederick M. Dawson	President

Peoples Credit Company

Joseph N. Scarpinato	President

Classes of Stock	Transfer Agents	Registrars
Common	Irving Trust Company, N.Y.	Chemical Bank, N.Y.
	Wilmington Trust Company, Wilmington, Del.	
	The First National Bank of Chicago	Continental Illinois National Bank and Trust Company of Chicago
5% Cumulative Preferred	Irving Trust Company, N.Y.	Manufacturers Hanover Trust Company, N.Y.
	Wilmington Trust Company, Wilmington, Del.	Girard Bank, Delaware
$5.50 Dividend Cumulative Convertible Preferred	Morgan Guaranty Trust Company of New York	Citibank, N.A., N.Y.
	Wilmington Trust Company, Wilmington, Del.	Girard Bank, Delaware
$4.50 Dividend Cumulative Preferred	Bradford Trust Company, N.Y.	The Chase Manhattan Bank, N.A., N.Y.
	Wilmington Trust Company, Wilmington, Del.	Girard Bank, Delaware
$4.30 Dividend Cumulative Preferred	Manufacturers Hanover Trust Company, N.Y.	The Chase Manhattan Bank, N.A., N.Y.
	The First National Bank of Chicago	Continental Illinois National Bank and Trust Company of Chicago
9.25% Redeemable Preferred	Wilmington Trust Company, Wilmington, Del.	Wilmington Trust Company, Wilmington, Del.

Media representatives and others seeking general information about the Company should contact Mr. Clifford W. Snyder at (201) 455-7116.

Security analysts, portfolio managers, and other investors seeking financial information about the Company should contact Mr. Andrew C. Halvorsen at (201) 455-7139.

Copies of the Company's 10-K report to the SEC are available upon request from Mr. Kenneth J. Kircher, Beneficial Corporation, P.O. Box 911, Wilmington, Delaware 19899.

Beneficial Corporation common stock trades on the New York Stock Exchange under the ticker symbol "BNL."

The Annual Meeting of the shareholders of Beneficial Corporation will be held on Friday, April 30, 1982 at 11 a.m., in the Company's headquarters, Beneficial Building, 1100 Carr Road, Wilmington, Delaware.

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Photography: Donald R. Spiro, Jon Riley

Beneficial Corporation
Wilmington, Delaware 19899

AR31

BENEFICIAL CORPORATION

Beneficial Building, Wilmington, Delaware 19899

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

April 30, 1981

The annual meeting of the stockholders of Beneficial Corporation, a Delaware corporation, will be held on Thursday, April 30, 1981, at the office of the Company, Beneficial Building, 1300 Market Street, Wilmington, Delaware, at 11 A.M. Wilmington time, for the following purposes: (1) electing directors of the Company, (2) ratifying the action of the Board of Directors in selecting the firm of Deloitte Haskins & Sells, Certified Public Accountants, as the independent auditors of the Company for 1981 and (3) transacting such other business as may properly be brought before the meeting.

Only shares of Common Stock, $4.30 Dividend Cumulative Preferred Stock and $5.50 Dividend Cumulative Convertible Preferred Stock may be voted at the meeting. The close of business on March 5, 1981 has been set as the record date for the purpose of determining stockholders entitled to notice of and to vote at the meeting. Stockholders who cannot personally attend the meeting and who wish to have their stock voted are requested to complete and sign the accompanying proxy (proxies) and return it (them) as soon as possible. No postage is required if mailed in the United States, its territories and possessions, in the enclosed envelope.

A summary post-meeting report will be mailed to all stockholders.

Kenneth J. Kircher
Vice-President and Secretary

Dated: March 17, 1981

March 17, 1981

BENEFICIAL CORPORATION

Beneficial Building, Wilmington, Delaware 19899

ANNUAL MEETING OF STOCKHOLDERS

April 30, 1981

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors for use at the annual meeting of stockholders of the Company to be held on April 30, 1981. The shares represented by each such proxy will be voted at the meeting in accordance with the specifications made thereon by the stockholder. The person giving a proxy has the power to revoke it any time before it has been voted.

VOTING SECURITIES

The close of business on March 5, 1981 has been set as the record date for the purpose of determining stockholders entitled to vote at the meeting. Each share of Common Stock and $4.30 Dividend Cumulative Preferred Stock is entitled to one vote, and each share of $5.50 Dividend Cumulative Convertible Preferred Stock is entitled to four and one-half votes. All of such classes will vote as a single class.

On February 28, 1981 the number of securities outstanding and entitled to vote was 21,923,148 shares of Common Stock, 836,585 shares of $4.30 Dividend Cumulative Preferred Stock and 98,444 shares of $5.50 Dividend Cumulative Convertible Preferred Stock. The aggregate number of votes entitled to be cast at the meeting as of February 28, 1981, with all of such classes voting as a single class, is 23,202,731.

ELECTION OF DIRECTORS

It is intended that, unless authority is withheld, votes will be cast pursuant to the accompanying proxy for the election of a Board of Directors of sixteen consisting of the persons named below, all of whom are presently directors, for terms of one year and until their successors are elected. Each nominee was elected a director at the Company's 1980 Annual Meeting of Stockholders, and each has expressed willingness to serve as a director during the coming year. The proxy may be voted for the election of other persons as directors in case any of those named below are unable to serve for any reason.

The names of the nominees for director, together with certain information regarding them, are as follows:

Name of Director, Age, Principal Occupation and Other Affiliations	Year First Elected a Director
Cecil M. Benadom, 71 Retired; Member of Executive and Audit Committees and former President of the Company	1965
Charles W. Bower, 59 Senior Vice President and Treasurer and Member of Executive and Finance Committees of the Company	1969
Robert C. Cannada, 60 Attorney at Law, Butler, Snow, O'Mara, Stevens & Cannada, Jackson, Mississippi; Member of Compensation and Audit Committees of the Company	1975
Elbert N. Carvel, 70 Vice Chairman of the Board of Trustees of University of Delaware; Chairman of Board of Directors of Peoples Bank and Trust Company, a subsidiary of the Company	1975
Finn M. W. Caspersen, 39 Chairman of Board of Directors and Chief Executive Officer, Chairman of Executive Committee and Committee on Strategic Planning and Evaluation and Member of Finance Committee of the Company	1975
Freda R. Caspersen, 72 Chairman of Board of Directors of Westby Corporation, real estate investments, Wilmington, Delaware	1972
George R. Evans, 70 Vice Chairman of Board of Directors, Member of Office of the President and Member of Executive and Finance Committees and Committee on Strategic Planning and Evaluation of the Company; Member of Executive Committee of Beneficial Management Corporation, a subsidiary of the Company	1973
Gerald L. Holm, 42 Executive Vice President of Beneficial Management Corporation, a subsidiary of the Company; Member of Committee on Strategic Planning and Evaluation of the Company	1979
R. Donald Quackenbush, 59 Chairman of Board of Directors of the Company's Insurance subsidiaries; Executive Vice President—Insurance of Beneficial Management Corporation, a subsidiary of the Company	1979
Susan Julia Ross, 37 Attorney at Law, Natelson and Ross, Taos, New Mexico; Member of Committee on Strategic Planning and Evaluation and Audit Committee of the Company	1979
Robert A. Tucker, 54 Member of Office of the President, First Vice President and Chief Financial Officer, Member of Executive Committee and Chairman of Finance Committee of the Company	1959
E. Norman Veasey, 48 Attorney at Law, Richards, Layton & Finger, P.A., Wilmington, Delaware; Member of Committee on Strategic Planning and Evaluation and Compensation Committee of the Company	1979
Richard A. Wagner, 54 President and Chief Executive Officer of Beneficial Management Corporation, a subsidiary of the Company	1977
Arthur T. Ward, Jr., 69 Medical doctor and businessman, Baltimore, Maryland; Member of Committee on Strategic Planning and Evaluation and Compensation Committee of the Company	1975
Charles H. Watts, II, 54 Director, Campaign for Brown University, Providence, Rhode Island; General Director, Member of Executive Committee and Committee on Strategic Planning and Evaluation and Chairman of Audit Committee of the Company	1959
K. Martin Worthy, 60 Attorney at Law, Hamel, Park, McCabe & Saunders, Washington, D.C.; Chairman of Compensation Committee of the Company	1977

During the last five years the principal occupation and employment of each director has been as listed in the table above, except that the Audit Committee and the Committee on Strategic Planning and Evaluation were established in 1977 and 1980, respectively, and except that:

Mr. Benadom was President of the Company and a member of the Finance Committee until December, 1976.

Mr. Caspersen was Vice Chairman of the Board of Directors (1975 to 1976) of the Company. From 1972 to 1976 he also was Associate Counsel of Beneficial Management Corporation, a subsidiary of the Company, and General Counsel of the Company's Insurance subsidiaries.

Mr. Evans was President (1974 to 1978) and Chief Executive Officer (1978 to 1979) of Beneficial Management Corporation. From December 11, 1979 to February 5, 1980, Mr. Evans was Chairman of the Board of Directors and Chief Executive Officer of Western Auto Supply Company, a subsidiary of the Company.

Mr. Holm was a Vice President (1973 to 1979) of Beneficial Management Corporation and President (1974 to 1979) of Beneficial Data Processing Corporation, a subsidiary of the Company.

Mr. Quackenbush was President of the Company's Insurance Subsidiaries (1970 to 1977), and a member of the Executive Committee (1978 to present), Senior Vice President-Insurance (1977 to 1978) and Vice President-Insurance (1975 to 1977) of Beneficial Management Corporation.

Miss Ross was an attorney (1971 to 1976) with the law firm of Dewey, Ballantine, Bushby, Palmer & Wood.

Mr. Wagner was Chief Operating Officer (1978 to 1979) and Executive Vice President-Operating (1974 to 1978) and since 1977 has been a member of the Executive Committee of Beneficial Management Corporation.

Mr. Watts has been an educational and business consultant (1977 to 1978), President of the Wolf Trap Foundation for the Performing Arts, Vienna, Virginia (1976 to 1977) and President of Bucknell University, Lewisburg, Pennsylvania (prior to 1977).

Messrs. Caspersen, Evans, Holm, Tucker and Watts are members of the Board of Directors of First Texas Financial Corporation, Spiegel, Inc. and Western Auto Supply Company, subsidiaries of the Company. Mr. Wagner is also a member of the Board of Directors of First Texas Financial Corporation.

The firms of Butler, Snow, O'Mara, Stevens & Cannada, of which Mr. Cannada is a member, and Richards, Layton & Finger, P.A., of which Mr. Veasey is a member, performed legal services in 1979 and 1980 for the Company and its subsidiaries. The firm of Hamel, Park, McCabe & Saunders, of which Mr. Worthy is a member, also performed legal services in 1980 for the Company and its subsidiaries. Such firms are currently performing legal services for the Company and its subsidiaries.

There are no family relationships between any nominees, except that Mr. Finn M. W. Caspersen is the son of Mrs. Freda R. Caspersen.

As of February 1, 1981, the Company's directors and nominees for directors, and its directors and officers as a group, beneficially owned the amounts of equity securities of the Company shown in the following table:

	Equity Securities of the Company Beneficially Owned(1)			
Name of Person or Group	**Common Stock**	**% of Class**	**5% Pfd. Stock**	**% of Class**
Cecil M. Benadom (2) (3) (4) (5)	109,173	*	29	*
Charles W. Bower (4) (5) (6)	383,222	1.7	21,879	5.4
Robert C. Cannada (2)	3,129	*	—	—
Elbert N. Carvel (2)	10,297	*	—	—
Finn M. W. Caspersen (2) (4) (5) (7) (8)	754,524	3.4	2,084	0.5
Freda R. Caspersen (7) (9)	393,378	1.8	1,343	*
George R. Evans (5)	8,942	*	18	*
Gerald L. Holm	4,275	*	—	—
R. Donald Quackenbush (2)	5,961	*	—	—
Susan Julia Ross	174	*	—	—
Robert A. Tucker (2) (4) (5) (6) (9) (10)	709,928	3.2	23,207	5.7
E. Norman Veasey	220	*	—	—
Richard A. Wagner (2)	4,445	*	—	—
Arthur T. Ward, Jr. (2) (11)	15,938	*	420	*
Charles H. Watts, II (2) (4)	231,741	1.1	1,333	*
K. Martin Worthy	1,740	*	—	—
All directors and officers as a group (35 persons) (2) (3) (4) (5) (6) (7) (8) (9) (10) (11)	1,471,600	6.7	26,576	6.5

In addition, as of such date Mr. Tucker owned 67* shares of the Company's $4.50 Dividend Cumulative Preferred Stock as to 40 shares of which he shares voting and investment power with others.

*Less than 0.5% of class.

(1) Unless otherwise indicated below, each director possesses sole voting and investment power with respect to the shares shown opposite his or her name in the tables.

(2) Includes shares of Common Stock owned by wives or certain members of the families of nominees, as to which such nominees disclaim beneficial ownership, as follows: Mr. Benadom—378 shares; Mr. Cannada—316 shares; Mr. Carvel—2,500 shares; Mr. Caspersen—5,200 shares; Mr. Quackenbush—50 shares; Mr. Tucker—1,202 shares; Mr. Wagner—467 shares; Mr. Ward—9,418 shares; and Mr. Watts—2,796 shares.

(3) Includes 422 shares of Common Stock which Mr. Benadom has the right to receive in March, 1981 under the Company's Incentive Compensation Plan.

(4) Includes 205,039 shares of Common Stock held by three trusts as to which Messrs. Caspersen and Watts and others serve as trustees (sharing voting and investment power), shown as beneficially owned by both of them. As to Messrs. Benadom, Bower, and Tucker, includes 99,397, 99,397 and 155,340 shares of Common Stock, respectively, held by two such trusts with respect to which they act as trustees (sharing voting and investment power), shown as beneficially owned by each of them. Also includes 596 shares of 5% Cumulative Preferred Stock ("5% Stock") owned by one such trust, shown as beneficially owned by Messrs. Caspersen, Tucker and Watts.

(5) Excludes shares owned by the Hodson Trust. For information concerning shares held by this trust see *Principal Shareholders.*

(6) Includes 276,631 shares of Common Stock and 21,879 shares of 5% Stock owned by the Beneficial Corporation and Subsidiaries Employees' Retirement Plan, as to which Messrs. Bower, Tucker and four other persons serve as trustees (sharing voting and investment power), shown as beneficially owned by each of them.

(7) Includes 294,440 shares of Common Stock as to which Finn M. W. Caspersen and Freda R. Caspersen share voting and investment power, shown as beneficially owned by both of them. As to 5,224 of such shares, such voting and investment power is shared with others.

(8) Includes 178,564 shares of Common Stock and 1,170 shares of 5% Stock (other than shares referred to in notes 2, 4 and 7 above) as to which Mr. Caspersen shares voting and investment power with others.

(9) Includes 59,611 shares of Common Stock and 679 shares of 5% Stock owned by Beneficial Foundation, Inc. as to which Mrs. Caspersen, Mr. Tucker and others share voting and investment power, shown as beneficially owned by both of them.

(10) Includes 131,127 shares of Common Stock (other than those referred to in notes 2, 4, 5 and 8 above) and 40 shares of $4.50 Dividend Cumulative Preferred Stock as to which Mr. Tucker shares voting and investment power with others.

(11) Includes 4,161 shares of Common Stock and 420 shares of 5% Stock as to which Mr. Ward shares voting and investment power with others.

The Board's Audit Committee, the composition of which is noted on page 2 in the table of nominees for directors, met six times in 1980. Its duties are (a) to recommend to the Board a firm of independent public accountants to be nominated for election by the stockholders to act as the Company's independent auditors, (b) to confer with the Company's independent auditors as to the scope of their proposed audit, (c) to review the findings and recommendations of the independent auditors on completion of the audit and to consider any problems encountered by them in conducting the audit and (d) to review the Company's internal audit controls and to provide a liaison with the Company's internal auditors. However, the Committee's duties do not include accounting and auditing management functions assigned to the Company's officers and other executives. The Board's Compensation Committee, the composition of which is noted on Page 2 in the table of nominees for directors, met two times in 1980. Its function is to fix the compensation of officers and key employees of the Company and certain

subsidiaries, and to supervise the Company's Incentive Compensation Plan. The Board's Finance Committee, the composition of which is noted on Page 2 in the table of nominees for directors, met 24 times in 1980. The Finance Committee, between meetings of the Board, may exercise all powers of the Board with respect to financing the operations of the Company. The Board's Executive Committee, the composition of which is noted on Page 2 in the table of nominees for directors, may exercise substantially all the authority of the Board (other than powers which the Board has specifically delegated to other committees) during the intervals between the meetings of the Board. In 1980 the Executive Committee of the Board held twelve meetings and on one occasion took action without a meeting pursuant to a written consent signed by all of its members. The Board's Committee on Strategic Planning and Evaluation, the composition of which is noted on Page 2 in the table of nominees for directors, was established on November 19, 1980 and is responsible for (a) undertaking such studies and evaluations as it shall deem necessary for the current corporate strategy and the social, political and economic environment within which the Company exists and (b) recommending to the Board such changes in the function and composition of the Board, including new or additional members, as will best equip the Board to fulfill its duties. The Committee held no meetings in 1980. The Board held four meetings during 1980.

The Committee on Strategic Planning and Evaluation will consider recommendations of nominees for election to the Board submitted by stockholders. Any stockholder may recommend such nominees by writing to the Committee at the following address: Committee on Strategic Planning and Evaluation—Board of Directors, Beneficial Corporation, Beneficial Building, 1300 Market Street, Wilmington, Delaware 19899, Attention: Kenneth J. Kircher, Vice President and Secretary.

PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding each person who, to the Company's knowledge, owned on the date indicated more than 5% of any class of the Company's outstanding voting securities:

Name and Address of Shareholder	Common Stock	$4.30 Dividend Cumulative Preferred Stock	% of Class Owned
Hodson Trust 200 South Street Morristown, New Jersey 07960	1,500,861(1)	—	6.8
Safeco Corporation, Safeco Life Insurance Company Safeco Plaza Seattle, Washington 98185	—	56,100(2)	6.7

(1) As of February 1, 1981, the Hodson Trust held of record the shares indicated in the table and 9,038 shares of 5% Cumulative Preferred Stock (approximately 2.2% of such class). Messrs. Benadom, Bower, Caspersen, Evans, Tucker and two other persons serve as trustees of such trust and share voting and investment power, but have no interest in the principal or income of such trust. Such shares would be regarded as beneficially owned by each such person under the terms of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

(2) Based on information contained in Amendment No. 2 to Schedule 13D of Safeco Corporation and Safeco Life Insurance Company, dated February 6, 1981, filed with the Securities and Exchange Commission under the Securities Act of 1934, as amended. Such amendment indicates that Safeco Corporation has sole voting and investment power with respect to all but 15,000 of the shares indicated in the table and that, with respect to such 15,000 shares, it shares voting and investment power with Safeco Life Insurance Company.

REMUNERATION

The following tabulation sets forth the aggregate remuneration paid by the Company and its subsidiaries during 1980 to (a) each of the five most highly compensated directors or officers of the Company whose total cash and cash-equivalent remuneration exceeded $50,000, for services in the capacities indicated, and (b) all directors and officers of the Company as a group.

Name of Individual or Number of Persons In Group	Capacities in Which Served	Cash and Cash-equivalent Forms of Remuneration(*) Salaries, Fees, Directors' Fees, Commissions, and Bonuses	Cash and Cash-equivalent Forms of Remuneration(*) Securities or Property, Insurance Benefits or Reimbursement, Personal Benefits	Aggregate of Contingent Forms of Remuneration(*)
Finn M. W. Caspersen	Chairman of Board of Directors and Chief Executive Officer, Director, Chairman of Executive Committee, Chairman of Committee on Strategic Planning and Evaluation and Member of Finance Committee of the Company	$ 379,065	$ 13,147	$ 21,583
George R. Evans	Vice Chairman of Board of Directors, Member of Office of the President, Director and Member of Executive and Finance Committees and Committee on Strategic Planning and Evaluation of the Company	307,950	12,800	19,433
R. Donald Quackenbush	Chairman of Board of Directors of the Company's Insurance subsidiaries; Executive Vice President-Insurance of Beneficial Management Corporation, a subsidiary; Director of the Company	192,350	17,661	9,583
Robert A. Tucker	Member of Office of the President, First Vice President and Chief Financial Officer, Director and Member of Executive Committee and Chairman of Finance Committee of the Company	292,100	8,049	—
Richard A. Wagner	President and Chief Executive Officer of Beneficial Management Corporation, a subsidiary; Director of the Company	242,650	19,672	6,425
41 directors and officers as a group		3,110,199	188,651	134,068

(*) The amounts of remuneration shown in this Proxy Statement have been determined in accordance with applicable regulations under the Securities Exchange Act of 1934, as amended. Such amounts do not include payments to or for the benefit of directors or officers for any part of 1980 during which they did not serve as such.

COMPENSATION PLANS AND ARRANGEMENTS

Incentive Compensation Plan. This Plan was terminated by the Board of Directors during 1978 except to the extent necessary to make distributions of awards granted under the Plan prior to that date. Under the Plan, in-service annual awards were granted to certain officers and key employees of the Company and its subsidiaries who were selected in certain years by the Compensation Committee of the Board of Directors. Awards are payable in equal quarter-annual installments over a ten-year period following termination of employment. During such period, interest is payable on cash balances and dividend equivalents are payable on shares not yet delivered.

Two types of awards, Plan A Units and Plan B Units, have been granted under the Plan. Plan A Units were awarded only in 1957. Each Plan A Unit entitles a participant to an amount in cash equal to the excess, if any, of the market value at the time of severance of employment of one share of the Company's Common Stock (including adjustments for stock dividends, etc.) over 95% of the fair market value of such share determined as of the date the Unit was awarded ($9.18 per share (adjusted) as of December 2, 1957). Plan B Units were awarded in 1957 and all subsequent years through 1970. No such awards were made thereafter. Each Plan B Unit entitles a participant at retirement to one share of the Company's Common Stock and a sum, payable in cash, equal to the amount of dividends paid per share on outstanding shares of Common Stock from the time of the award to termination of employment. The market value of a share of Common Stock at the time of realization (including adjustments for stock dividends, etc.) may be more or less than the market value at the time of the awards.

At December 31, 1980, the following awards under the Plan stood to the credit of directors and officers listed or included in the table on Page 6: Mr. Evans—1,659 Plan B Units, Mr. Tucker—321 Plan A Units and 8,398 Plan B Units; Mr. Wagner—441 Plan B Units; and 41 directors and officers as a group—1,025 Plan A Units and 13,067 Plan B Units. At such date a total of 3,671 Plan A Units and 29,740 Plan B Units were outstanding. In addition, at such date, Mr. Benadom, who had previously retired as an officer, was entitled to receive $24,919 in cash attributable to Plan A Units, and 10,131 shares of Common Stock and $135,372 in cash attributable to Plan B Units, awarded under the Plan prior to retirement.

Employees' Retirement Plan. Under this Plan, an employee's annual benefit upon retirement at normal retirement date will be based upon 1½% of his or her highest applicable average annual salary in any 3 consecutive years of service prior to the normal retirement date, multiplied by the employee's years of service up to 40 years, less one-half of annual social security benefits and certain other deductions. The maximum annual retirement benefit under the Plan is the lesser of (a) 60% of an employee's highest average applicable annual base salary for three years, or (b) $124,500, subject to inflation-related adjustments. The actuarial value of an employee's annual retirement benefit may be paid in a single payment upon retirement. The Plan also contains provisions for early retirement benefits and payments to a vested employee who leaves the employ of the Company prior to retirement. The Plan was amended in 1980 to provide for determination of benefits based on an employee's highest average annual salary in any 3 consecutive years (rather than 5 consecutive years), to liberalize certain eligibility requirements for early retirement benefits, to provide for a small increase in benefits for long-service employees and to eliminate charges to employees for certain pre-retirement death benefits.

For Plan purposes, salary is defined to include wages paid, bonuses and other special compensation but not overtime payments, Company contributions under the Employees' Stock Purchase Plan or the Tax Credit Employee Stock Ownership Plan and taxable group insurance premiums. For officers included in the table on page 6, salary includes all items reported in the third column of such table, except directors fees. Benefits under the Plan are fully vested after 10 years of cumulative service or at age 65. Messrs. Caspersen, Quackenbush, Tucker and Wagner had approximately 9, 21, 27 and 33 years of service respectively, credited under the Plan through 1980. At January 1, 1981, Mr. Evans was entitled to receive upon retirement (a) $964,051 (which includes interest at 8% from his normal retirement date) or (b) a deferred retirement allowance, payable monthly for life, of equivalent actuarial value.

The table below illustrates the estimated annual benefits, based on the indicated applicable average annual salary and years of service upon retirement, payable upon retirement under the Plan to a participant who retires at the end of the calendar year in which age 65 is attained.

	Estimated Annual Retirement Benefit		
Applicable Average Annual Salary	15 Years of Service	25 Years of Service	35 Years of Service
$150,000	$33,750	$ 56,250	$ 78,750
200,000	45,000	75,000	105,000
250,000	56,250	93,750	124,500
300,000	67,500	112,500	124,500
400,000	90,000	124,500	124,500

Employees' Stock Purchase Plan. Under this Plan, directors and eligible employees of the Company and those of participating subsidiaries, including officers, may elect to contribute funds for the purchase of shares of the Company's Common Stock and will receive from the Company a contribution of additional shares, subject to certain vesting rights set forth in the Plan. The maximum amount which may be contributed by a participant in a calendar year may not exceed an amount equal to 20% of the participant's "Annual Compensation" (as defined in the Plan) for such year.

As shares of Common Stock purchased with participant's contributions are credited to a participant's account, a number of unvested "share units" are also credited to the participant's account as follows: (1) for the first $1,000 contributed under the Plan in each year, each participant is credited a number of share units equal to the full number of shares credited to such participant's account; and (2) for all amounts in excess of $1,000 contributed in each year, each participant is credited a number of share units equal to 50% of the number of shares purchased with such additional funds and credited to the participant's account.

Share units entitle a participant to receive on each dividend payment date for the Company's Common Stock a cash amount equal to the amount of the dividend that such participant would have received had he or she been, on the record date for payment of such dividend, the owner of a number of shares of such stock equal to the number of such credited share units.

Share units become fully vested in a participant only after the earlier of (a) the expiration of a period of three years following the date on which such share units were credited, or (b) the date on which a participant's employment or service as a director is terminated for any of the reasons set forth in the Plan.

At December 31, 1980, the following awards under the Plan stood to the credit of directors and officers listed or included in the table on Page 6 as a result of their respective contributions to the Plan: Mr. Caspersen—2,615 share units; Mr. Evans—2,369 share units; Mr. Quackenbush—1,347 share units; Mr. Wagner—1,422 share units; and 41 directors and officers as a group—18,627 share units.

Tax Credit Employee Stock Ownership Plan (TRASOP). Under this Plan, which was adopted by the Board of Directors on August 12, 1980 and retroactively effective as of January 1, 1979, the Company contributes funds which are used to purchase shares of the Company's Common Stock for individual accounts maintained by an independent trustee for eligible employees of the Company and participating subsidiaries. All Company contributions under the Plan are totally refundable through tax credits available under Federal tax laws and have no effect on net income. Company contributions are generally equal to 1% of the sum invested by the Company and its consolidated subsidiaries in certain tangible personal property and allocations to employee accounts are based upon the ratio an employee's compensation bears to the total compensation of all eligible employees. In addition, eligible employees are permitted to make voluntary contributions up to a maximum of 6% of their compensation or the maximum aggregate amount of employee contributions of ½% of the Company's qualified investment and the Company will match such voluntary contributions with additional contributions to the Plan.

Compensation is defined in the Plan to include all wages paid during the calendar year, including bonuses, commissions, and any other special form of remuneration, but does not include Company contributions under the Employees' Stock Purchase Plan, taxable group life insurance premiums or certain moving expenses and may not in any event exceed $100,000.

Salaried full-time employees are eligible to participate in the Plan if they are at least 25 years of age and have been employed by the Company or a participating subsidiary for not less than three years. Dividends received by the trustee for the account of a participant are reinvested in shares of Common Stock of the Company and shares of Common Stock purchased under the Plan are voted by the trustee in accordance with instructions received from each participant. Participants are fully vested and have a nonforfeitable interest in their respective accounts at all times. Participants are entitled to receive the shares in such accounts only upon retirement or termination of employment with the Company or a participating subsidiary and they may elect to have the value of all or a portion of the Common Stock credited to their account distributed in cash.

At December 31, 1980, the following shares under the Plan stood to the credit of the officers listed or included in the table on Page 6: Mr. Caspersen—646 shares; Mr. Evans—646 shares; Mr. Quackenbush—646 shares; Mr. Tucker—586 shares; Mr. Wagner—646 shares; and the 20 officers eligible to participate in the Plan, as a group—7,332 shares.

Other Compensation Plans and Arrangements. Directors of the Company who are not employees receive for their services $1,500 per quarter and $1,500 for each meeting attended. Directors who are also employees receive for their services as directors $200 for each meeting of the Board attended. Non-employee directors who are members of the Executive Committee receive $1,500 per meeting attended and those who are members of the Audit Committee, Compensation Committee and Committee on Strategic Planning and Evaluation receive $1,000 for each meeting attended. Prior to November 18, 1980 such non-employee members received $1,000 for attending each meeting of the Executive Committee, $750 for attending each meeting of the Audit Committee and $500 for attending each meeting of the Compensation Committee. In addition, a non-employee director designated by the Board as a General Director receives a fee of $1,000 per day (provided such fees do not exceed a maximum of $50,000 per year) and reasonable travel expenses for each day devoted to carrying out such responsibilities as the Board may from time to time designate. Payment of such meeting and service fees may be deferred until a director either reaches the age of 72 or terminates his or her relationship with the Company. Such deferred fees bear interest at the rate of 6% per annum.

The Company has an employment agreement with Mr. Evans which provides that he will (a) render without compensation advisory and consulting services to the Company for a period of three years following his retirement and (b) not engage in any enterprise in competition with the business of the Company or any of its subsidiaries for a period of three years following his retirement.

In order to allow the Company to avail itself of the experience of retired directors, it is the Company's policy to pay each director who, after November 26, 1979 (a) ceases to be a director after at least five years of service and after having attained the age of 70 years or (b) has served for ten years and either resigns voluntarily or decides not to stand for re-election, the sum of $3,000 per quarter if such retired director agrees to be available to render advice to the Board, its Executive Committee or any of its members. Directors who retired prior to November 26, 1979 under the same conditions stated above receive $2,000 per quarter.

During 1980, three nominees, Messrs. Caspersen, Tucker and Watts, had loans outstanding with Peoples Bank and Trust Company, a subsidiary of the Company. In addition, Central Grain, Inc., and Killen Grain Company, associates of Mr. Carvel, and Clark Hill Sugary, Inc., an associate of Mr. Caspersen, also had loans outstanding with Peoples Bank and Trust Company during 1980. All loans were made by Peoples Bank and Trust Company in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and did not involve more than normal risk of collectibility or present other unfavorable features.

The firms of Butler, Snow, O'Mara, Stevens & Cannada, of which Mr. Cannada is a member, Richards, Layton & Finger, P.A., of which Mr. Veasey is a member, and Hamel, Park, McCabe & Saunders, of which Mr. Worthy is a member, received \$697, \$38,155 and \$21,158, respectively, for services performed for the Company and its subsidiaries in 1980.

This Proxy Statement includes a description of transactions between the Company and its subsidiaries and directors and officers of the Company only for periods during which they served as such.

SELECTION OF AUDITORS

The Board of Directors, upon recommendation of the Audit Committee which is composed of four directors who are not now officers or otherwise employees of the Company, has selected, subject to stockholder approval, the firm of Deloitte Haskins & Sells, Certified Public Accountants, as the independent auditors of the Company for 1981 and it is intended that, unless otherwise specified on the accompanying proxy, votes will be cast pursuant to the proxy for the ratification of such action. As in prior years, a representative of Deloitte Haskins & Sells is expected to be present at the meeting and to be available to respond to appropriate questions. The representative also will have an opportunity to make a statement if he or she so desires.

Audit services rendered by Deloitte Haskins & Sells to the Company in 1980 included examination of the annual financial statements, review of unaudited quarterly financial information, assistance and consultation in connection with Securities and Exchange Commission reports and registration statements and consultation in connection with various accounting matters. Non-audit services rendered to the Company and its subsidiaries during 1980 by Deloitte Haskins & Sells (the fees for which amount to 15% of the fees paid for 1980 audit services) included consultation on domestic and international corporate tax matters (8%), examining financial statements and records of companies proposed for acquisition (6%) and tax services for executives (1%). All services provided by Deloitte Haskins & Sells were approved by the Audit Committee of the Board, in most but not all cases before they were rendered. The Audit Committee determined that the non-audit services did not affect the independence of Deloitte Haskins & Sells in the performance of its audit services.

OTHER BUSINESS

The Board of Directors does not know of any matters to come before the meeting other than those referred to in the Notice of the meeting. If any other matters should come before the meeting, the accompanying proxy will be voted on such other matters in accordance with the judgment of the person or persons voting the proxy.

STOCKHOLDER PROPOSALS FOR 1982 ANNUAL MEETING

Stockholder proposals for the 1982 Annual Meeting must be received at the executive offices of the Company, 1300 Market Street, Wilmington, Delaware 19899, not later than December 17, 1981 for inclusion in the 1982 proxy statement and form of proxy.

FORM 10-K

The Company will furnish without charge to each stockholder, upon his or her written request, a copy of the Company's Annual Report on Form 10-K for the year 1980 which the Company is required to file with the Securities and Exchange Commission, including the financial statements and the schedules thereto.

Requests should be addressed to: Mr. Kenneth J. Kircher, Vice President and Secretary, Beneficial Corporation, P. O. Box 911, Wilmington, Delaware 19899.

COST OF SOLICITATION OF PROXIES

The cost of soliciting proxies will be borne by the Company. Solicitation of proxies from some stockholders of the Company may be made by personal interview, mail, telephone or telegram by the directors, officers and regular employees of the Company or subsidiaries. The Company also will request brokerage houses, custodians, nominees and fiduciaries to forward the proxy material and annual report of shareholders to the beneficial owners of the stock held of record by such persons and will reimburse them, upon request, for reasonable expenses incurred in connection therewith.

By order of the Board of Directors,

Kenneth J. Kircher
Vice President and Secretary

AR31

Beneficial Corporation

Interim Report to Shareholders

2 Six Months Ended June 30, 1981

Highlights **Beneficial Corporation**

	Three Months Ended June 30			Six Months Ended June 30		
(in millions)	**1981**	1980	% Change	**1981**	1980	% Change
Consolidated						
Net Income	**$ 13.5**	$ 23.1	(41.6)	**$ 26.0**	$ 41.9	(37.9)
Earnings per Common Share	**.41**	.85	(51.8)	**.78**	1.50	(48.0)
Dividends per Common Share	**.50**	.50	—	**1.00**	1.00	—
Book Value per Common Share				**37.31**	37.09	.6
Shareholders' Equity*				**1,077.0**	1,071.4	.5
Finance Division						
Revenue	**346.2**	334.3	3.6	**683.5**	661.5	3.3
Net Income	**16.8**	29.7	(43.4)	**34.2**	51.3	(33.3)
Principal of Finance Receivables**				**4,413.6**	4,248.4	3.9
Number of Accounts**				**2.9**	3.6	(19.4)
Average Account Balance**				**$ 1,541**	$ 1,195	29.0
Reserve for Credit Losses as % of Finance Receivables**				**4.42%**	4.70%	
Savings and Loan Division						
Revenue	**54.1**	41.0	32.0	**$ 97.6**	$ 80.0	22.0
Net Income (Loss)	**(3.8)**	(1.8)		**(6.0)**	.1	
Equity of Beneficial Corporation in Net Income (Loss) plus Purchase Accounting Adjustments	**(3.0)**	(.9)		**(4.3)**	2.1	
Merchandising Division						
Net Sales and Other Revenue	**270.4**	247.1	9.4	**524.8**	500.5	4.9
Net Income (Loss)	**4.7**	(1.8)		**5.8**	(4.0)	

*Includes $125.0 in Redeemable Preferred Stock.
**At end of period.

Cover Photo: Shareholder Charles V. Baehr donated Beneficial memorabilia over 45 years old to chairman Finn M. W. Caspersen at the April 30th Beneficial Corporation stockholders' meeting in Wilmington.

Beneficial Corporation's second quarter net income decreased 41.6% to $13.5 million from $23.1 million in the second quarter of 1980. Earnings per share fell 51.8% to $.41. For the first half, net income declined 37.9% to $26.0 million, while earnings per share decreased 48.0% to $.78. The continuing high level of interest rates experienced during the quarter represented the chief drag on results. During the first half of 1981, Beneficial's average cost of short-term debt, worldwide, was 16.52%, compared to 14.58% in the corresponding 1980 period.

Second quarter Finance Division earnings decreased 43.4% to $16.8 million, burdened by higher borrowing costs. Also, for the quarter, an after-tax foreign exchange loss of $5.2 million was recorded, compared to an after-tax gain on foreign exchange of $4.6 million in the second quarter of 1980. Beneficial is essentially in a covered position on a pretax or balance sheet basis with respect to foreign currencies, but unrealized foreign exchange gains or losses on the equity investments in our foreign subsidiaries are not tax effected. This anomalous situation serves to significantly distort the Consumer Finance Group tax rate. Impacted by these factors, Consumer Finance Group earnings declined to $3.3 million from $18.4 million in the second quarter of 1980. Insurance Group earnings were strong, increasing 27.9% to $16.5 million from $12.9 million a year earlier. Good growth in investment income generated the profit increase.

Operating measures in the consumer loan portfolio began to improve in the second quarter. Net receivables increased $177 million during the quarter following the first quarter's $16 million decline. Loan balances more than two months delinquent were 1.75% of loan receivables at June 30, up from 1.41% a year earlier, but improved from 1.82% at March 31 of this year. Also, net charge-offs improved to 0.43% of average receivables during the quarter from 0.60% of average receivables in the second quarter of 1980. High quality real estate secured loans continue to expand rapidly and now represent more than 41% of total receivables.

First Texas Financial Corporation, our Texas savings and loan holding company, contributed a $3.0 million net loss to second quarter results compared to a $0.9 million net loss a year earlier. This quarter's net loss was reduced by purchase accounting adjustments of $1.2 million which stem from the acquisition (completed in April) of Centennial Holding Company, whose principal subsidiary, Centennial Savings Association, operates 15 savings and loan branches in Texas. Centennial Savings has been merged into First Texas Savings. Additionally, purchase accounting credits to income resulting from the original acquisition of First Texas in 1979 reduced the 1981 loss by $0.8 million and narrowed 1980's deficit by $0.9 million.

Western Auto Supply Company generated second quarter net income of $4.4 million, up sharply from profits of $1.1 million in the 1980 period. Net sales and other revenue increased 3.6%. For the half, Western's net income is $6.6 million.

Spiegel, Inc.'s second quarter net income of $0.3 million compared favorably to the $2.9 million net loss recorded in the 1980 quarter. Beneficial recently announced that a letter of intent for the sale of Spiegel has been signed. Sale price is estimated to be in excess of $52 million, creating a net book loss, after taxes, of approximately $40 million in 1981. Upon signing of a definitive agreement of sale a loss on this transaction will be recorded and the purchaser will be disclosed.

Finn M. W. Caspersen
Chairman of the Board

George R. Evans
Office of the President
First Vice Chairman
of the Board

Robert A. Tucker
Office of the President
Chief Financial Officer

Gerald L. Holm
Second Vice Chairman
of the Board

August 13, 1981

Update

Shareholder donates 45-year-old Beneficial memorabilia

At the annual meeting of Beneficial Corporation stockholders on April 30, shareholders Charles V. Baehr, semi-retired stockbroker who handled Hodson Securities (a past subsidiary of Beneficial) during the 1930's, and his wife donated to chairman Finn M. W. Caspersen various pieces of Beneficial memorabilia including "Hodson Investor" bulletins from 1933-1935. Making the donation, Baehr said: "There are some who don't realize what Beneficial has done over the years. I thought you might be interested in this material. Beneficial in 1934 was featured in one list of 49 common stocks on the New York Stock Exchange which one might have owned before the 1929 crash and during the Depression which paid dividends without omission or reduction."

Second mortgages move to 41.0% of portfolio

Under Beneficial's portfolio improvement program, second mortgages and real estate secured loans increased by $277.6 million during the first six months of 1981 to 41.0% of principal receivables as compared with 36.0% as at December 31, 1980.

Beneficial negotiating sale of Spiegel

On June 24, Beneficial Corporation announced it signed a letter of intent for the sale of Spiegel, Inc., its catalog mail order subsidiary, to an undisclosed purchaser for an amount in excess of $52 million. Completion of the transaction is subject to negotiation and execution of a definitive agreement and requisite corporate and government approvals.

Gerald L. Holm elected second vice chairman

Gerald L. Holm, member, board of directors, Beneficial Corporation, and executive vice president, Beneficial Management Corporation, was elected second vice chairman, a new post, in May. He will also serve as member of the executive committee, Beneficial Corporation. He continues as member, board of directors, Western Auto Supply Company and First Texas Savings Association and is chairman of the board, Beneficial Leasing Group, Inc., all subsidiaries.

First Texas installing ATMs

On May 14, First Texas, Beneficial's savings and loan subsidiary, announced formal plans to provide automatic teller machine (ATM) service at selected Kroger supermarkets in the Dallas-Fort Worth area. This agreement with Kroger makes First Texas the largest savings association in the state with a proprietary off-site ATM network.

(in millions) June 30	1981	1980
Assets		
Cash (includes compensating balances of $31.0 and $28.4)	$ 29.8	$ 69.5
Finance Receivables (Note 2)	4,896.8	4,855.9
Less Unearned Finance Charges	(483.2)	(607.5)
Principal of Finance Receivables	4,413.6	4,248.4
Less: Reserve for Credit Losses	(195.0)	(199.7)
Insurance Policy and Claim Reserves Applicable to Finance Receivables	(146.4)	(147.2)
Net Finance Receivables	4,072.2	3,901.5
Net Receivables Acquired from Western Auto	138.1	165.7
Acquired Assets to be Divested (Note 8)	—	195.8
Investments (Note 3)	1,057.3	937.5
Receivable from Merchandising Division	103.7	86.5
Equity in Net Assets of Non-Consolidated Subsidiaries		
Savings and Loan Division (Page 11)	75.1	58.5
Merchandising Division (Page 12)	280.7	267.3
Other	6.7	6.7
	362.5	332.5
Property and Equipment (at cost, less accumulated depreciation of $35.6 and $33.6)	169.2	88.5
Other Assets	377.0	343.1
Total	$6,309.8	$6,120.6
Liabilities and Shareholders' Equity		
Short-Term Debt (Note 4)	$1,086.2	$ 905.9
Deposits Payable	88.8	92.6
Accounts Payable and Accrued Liabilities	278.9	262.4
Insurance Policy and Claim Reserves (applicable to risks other than finance receivables)	450.2	362.3
Long-Term Debt (Note 5)	3,328.7	3,426.0
Total Liabilities	5,232.8	5,049.2
Redeemable Preferred Stock	125.0	125.0
Other Preferred Stock	116.4	116.5
Common Stock (60.0 shares authorized, 22.2 and 22.1 shares issued and outstanding)	22.2	22.1
Additional Paid-in Capital	62.2	61.9
Net Unrealized Loss on Equity Securities	(20.7)	(9.0)
Retained Earnings	771.9	754.9
Total	$6,309.8	$6,120.6

See Notes to Financial Statements.

(in millions)	Three Months Ended June 30 1981	Three Months Ended June 30 1980	Six Months Ended June 30 1981	Six Months Ended June 30 1980
Finance Division				
Revenue	**$346.2**	$334.3	**$683.5**	$661.5
Expenses				
Interest (Note 9)	**107.4**	101.2	**211.4**	203.2
Salaries and Employee Benefits	**53.3**	51.5	**106.6**	104.0
Provision for Credit Losses (less recoveries)	**21.4**	26.5	**43.1**	48.8
Insurance Benefits Provided	**69.9**	57.4	**133.4**	108.6
Other	**62.6**	55.2	**129.4**	115.3
Total	**314.6**	291.8	**623.9**	579.9
Operating Income	**31.6**	42.5	**59.6**	81.6
Foreign Exchange Gain (Loss)	**(1.7)**	2.3	**(2.6)**	(.7)
Income Before Income Taxes	**29.9**	44.8	**57.0**	80.9
Provision For Income Taxes (Note 7)	**13.1**	15.1	**22.8**	29.6
Income From Finance Division	**16.8**	29.7	**34.2**	51.3
Income From Savings and Loan Division				
Net Income (Loss)	**(3.8)**	(1.8)	**(6.0)**	.1
Purchase Accounting Adjustments	**.8**	.9	**1.7**	2.0
	(3.0)	(.9)	**(4.3)**	2.1
Income (Loss) From Merchandising Division	**4.7**	(1.8)	**5.8**	(4.0)
Interest Expense, After Income Taxes, Related to Investment in Non-Consolidated Subsidiaries (Note 9)	**(5.0)**	(3.9)	**(9.7)**	(7.5)
Net Income	**$ 13.5**	$ 23.1	**$ 26.0**	$ 41.9
Earnings Per Common Share	**$ .41**	$ .85	**$ .78**	$ 1.50
Average Outstanding Shares	**22.3**	22.3	**22.3**	22.3
Dividends Per Common Share	**$ .50**	$ .50	**$ 1.00**	$ 1.00

See Notes to Financial Statements.

Statement of Changes in Financial Position

Beneficial Corporation and Consolidated Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
(in millions)	**1981**	1980	**1981**	1980
Source of Funds				
Operations				
Net Income	**$ 13.5**	$ 23.1	**$ 26.0**	$ 41.9
Non-cash charges (credits) to income				
Provision for credit losses (before recoveries)	**24.9**	29.2	**49.4**	53.7
Increase in unpaid expenses	**14.3**	9.4	**25.0**	30.7
Increase (decrease) in insurance reserves	**29.3**	.9	**39.1**	(3.6)
Depreciation, amortization, and other	**6.3**	6.5	**12.4**	10.0
Unrealized foreign exchange loss (gain)	**1.4**	(2.0)	**2.3**	.4
Provision for deferred income taxes	**9.7**	(1.2)	**5.6**	(3.1)
Undistributed net loss (income) of non-consolidated subsidiaries	**(1.6)**	2.6	**(1.5)**	1.6
Funds provided by operations	**97.8**	68.5	**158.3**	131.6
Increase (decrease) in short-term debt	**332.3**	(50.7)	**275.5**	(68.6)
Redeemable preferred stock issued	**—**	—	**—**	22.0
Long-term debt issued	**34.6**	81.2	**128.0**	181.8
Other—net	**(33.8)**	50.3	**(28.2)**	(12.6)
	$430.9	$149.3	**$533.6**	$254.2
Application of Funds				
Increase (decrease) in principal of finance receivables (before charge-offs)	**$230.0**	$ (.9)	**$254.6**	$ 39.3
Increase in investments (at carrying amount)	**44.2**	75.4	**42.1**	79.7
Investment in Savings and Loan Division	**$ 18.6**	—	**$ 18.6**	—
Additions to property and equipment	**22.8**	19.8	**43.0**	25.9
Decrease in accounts payable	**10.7**	20.3	**29.3**	3.0
Long-term debt paid	**89.9**	20.0	**115.5**	76.0
Dividends on capital stock				
Preferred	**3.8**	3.8	**8.6**	8.5
Common	**10.9**	10.9	**21.9**	21.8
	$430.9	$149.3	**$533.6**	$254.2

See Notes to Financial Statements.

Notes to Financial Statements
(amounts in millions)

1. *Financial Statement Presentation and Consolidation*

The financial statements presented herein, prepared from the books and records of the companies, reflect all adjustments which, in the opinion of management, are necessary for a fair presentation.

The consolidated financial statements include, after intercompany eliminations, the accounts of all significant subsidiaries except those comprising the Savings and Loan Division and the Merchandising Division, which are included on the equity method.

2. *Finance Receivables*

The Principal of Finance Receivables is as follows:

June 30	1981	1980
Real Estate Secured Loans	**$1,809.6**	$1,267.7
Other Loans	**2,054.8**	2,372.0
Total Loans	**3,864.4**	3,639.7
Sales Finance Contracts	**274.4**	398.8
Bank Credit Card Receivables	**85.5**	91.1
Lease Receivables	**189.3**	118.8
Total Finance Receivables	**$4,413.6**	$4,248.4

3. *Investments*

These are held principally by the Insurance Group as long-term investments. The carrying amount is as follows:

June 30	1981	1980
Debt Securities		
Municipal Bonds	**$ 311.3**	$ 295.3
Other	**636.1**	536.1
Total	**947.4**	831.4
Equity Securities	**100.4**	97.0
Other	**9.5**	9.1
Total Investments	**$1,057.3**	$ 937.5
Market Value	**$ 898.3**	$ 871.1

4. *Short-Term Debt*

June 30	1981	1980
Banks	**$ 143.6**	$ 173.1
Commercial Paper	**863.8**	678.6
Total Short-Term Notes	**1,007.4**	851.7
Employee Thrift Accounts	**85.5**	57.2
Total	**1,092.9**	908.9
Unamortized Discount	**(6.7)**	(3.0)
Total Short-Term Debt	**$1,086.2**	$905.9

The average actual interest rate for Short-Term Notes for the six months ended June 30 was:

	1981	1980
U.S. dollar borrowings	**17.43%**	15.06%
Foreign currency borrowings	**12.23**	12.68
Overall	**16.52**	14.58

5. *Long-Term Debt*

Long-Term Debt outstanding, of which 87.5% and 88.3% of the total is payable in U.S. currency, matures as follows:

June 30	1981	1980
1980	**$ —**	$ 79.5
1981	**47.4**	154.9
1982	**89.2**	93.9
1983	**215.4**	216.7
1984	**544.3**	605.6
1985	**284.0**	271.8
1986	**224.1**	222.7
1987-2007	**1,945.3**	1,809.8
Total	**3,349.7**	3,454.9
Unamortized Discount	**(21.0)**	(28.9)
Total Long-Term Debt	**$3,328.7**	$3,426.0
Weighted Average Annual Interest Rate on Debt Outstanding at End of Period	**9.36%**	8.94%

(continued)

Notes to Financial Statements *(concluded)*
(amounts in millions)

6. *Foreign Operations*

Significant data at June 30 regarding amounts denominated in foreign currencies and foreign operations for the six months then ended, after translation to U.S. dollar equivalents, are:

	1981	1980
Assets	**$716.4**	$683.2
Liabilities	**710.7**	657.2
Net Assets	**$ 5.7**	$ 26.0
Net Income	**$ 4.6**	$ 17.1
% of Finance Division total	**13.5%**	33.3%

7. *U.S. and Foreign Taxes on Income*

The expected and the effective U.S. and foreign tax rates on Finance Division Income before Income Taxes for the six months ended June 30 of 36.2% for 1981 and 31.6% for 1980 are lower than the expected tax rate of 46% principally because the income of insurance subsidiaries is taxed at lower effective rates, which more than offsets the higher effective tax rate for the Consumer Finance Group caused by non-tax-deductible foreign exchange losses.

8. *Acquisition/Divestitures*

In mid-December 1979 the Company acquired Capital Financial Services, Inc. and the consumer finance and insurance operations of Southwestern Investment Company. Results of operations of Capital and Southwestern, except consumer finance offices subsequently divested, are included in the Finance Division from that time. The acquisitions are accounted for as purchases.

In accordance with a consent decree between the Justice Department and the Company, BarclaysAmerican-Corporation purchased, on October 10, 1980, 138 consumer finance offices formerly of Capital and Southwestern for approximately $190.

On April 24, 1981, the Company completed acquisition of Centennial Holding Company, Houston, Texas for $18.6. Centennial operated 15 savings and loan branches in Texas, which have been merged into First Texas.

9. *Interest Expense*

For the six months ended June 30, 1981 and 1980 the total amount of interest cost incurred was $237.5 and $233.1. Interest cost capitalized on office buildings being constructed for the Company's own use for the six months ended June 30, 1981 and 1980 was $5.0 and $1.4.

The effect of the treatment of Interest Expense related to investment in subsidiaries not a part of the Finance Division removed from interest expense of the Finance Division and interest expense related to the investment in the Insurance Group removed from interest expense of the Consumer Finance Group (page 9) and shown, net of taxes, as a separate item for the six months ended June 30 is as follows:

	1981	1980
Net Income		
Finance Division		
Consumer Finance Group	**$ 9.0**	$26.3
Insurance Group	**31.0**	27.9
Interest Expense, after Income Taxes, Related to Investment in Insurance Group	**(5.8)**	(2.9)
Income from Finance Division	**34.2**	51.3
Income (Loss) from Savings and Loan Division	**(4.3)**	2.1
Income (Loss) from Merchandising Division	**5.8**	(4.0)
Interest Expense, after Income Taxes, Related to Investment in Non-Consolidated Subsidiaries	**(9.7)**	(7.5)
Total	**$26.0**	$41.9

10. *Proposed Sale of Subsidiary*

The Company has signed a letter of intent for the sale of the stock of its wholly-owned subsidiary, Spiegel, Inc., to an unaffiliated third party. The purchase price is estimated to be in excess of $52 million. The Company anticipates that the transaction will create a book loss, after certain tax adjustments, of approximately $40 million, to be charged against 1981 earnings.

Completion of the transaction, scheduled for early 1982, is subject to negotiation of a definitive agreement and requisite corporate and governmental approvals.

(in millions)	Three Months Ended June 30 1981	Three Months Ended June 30 1980	Six Months Ended June 30 1981	Six Months Ended June 30 1980
Net Finance Revenue				
Finance Charges and Fees	$225.0	$229.0	$ 447.7	$ 455.7
Interest Expense	101.5	98.2	199.9	197.3
Gross Margin	123.5	130.8	247.8	258.4
Other Revenue	11.4	13.0	25.4	26.8
Total	134.9	143.8	273.2	285.2
Operating Expenses				
Salaries and Employee Benefits	50.6	49.4	101.4	99.6
Provision for Credit Losses (less recoveries)	21.4	26.5	43.1	48.8
Advertising	3.9	2.4	11.0	9.2
Depreciation	2.8	2.4	5.5	4.1
Postage and Express	3.0	3.2	5.8	6.3
Printing and Stationery	3.3	3.1	5.9	7.0
Rent	7.9	7.0	15.3	14.2
Telephone	5.0	5.1	10.2	10.7
Travel	3.2	3.0	7.5	6.7
Other	17.5	14.5	36.6	29.7
Total Operating Expenses	118.6	116.6	242.3	236.3
Operating Income	16.3	27.2	30.9	48.9
Foreign Exchange Gain (Loss)	(1.1)	3.4	(1.9)	—
Income Before Income Taxes	15.2	30.6	29.0	48.9
Provision For Income Taxes	11.9	12.2	20.0	22.6
Net Income (Note 9)	$ 3.3	$ 18.4	$ 9.0	$ 26.3

Supplemental Information

	Three Months 1981	Three Months 1980	Six Months 1981	Six Months 1980
During The Period				
New Funds Lent to Customers	$705.2	$468.5	$1,195.7	$1,022.8
Principal of Finance Receivables Purchased	57.3	26.2	89.5	42.3
Finance Receivables Charged Off (less recoveries)	20.2	29.5	42.8	52.0
Annual Percentage Rate of Finance Charges and Fees Collected	20.36	20.67	20.42	20.51
At End of Period				
Number of Consumer Finance Offices			2,143	2,313

(in millions)	Three Months Ended June 30 1981	1980	Six Months Ended June 30 1981	1980
Revenue				
Premiums Earned	$ 86.6	$76.1	$165.9	$146.7
Investment Income (net)	21.0	16.2	39.6	31.9
Other Income	2.8	3.1	6.3	6.0
Total	110.4	95.4	211.8	184.6
Benefits and Expenses				
Policy Benefits	69.9	57.4	133.4	108.6
Commissions and Brokerage	16.4	14.2	31.2	26.0
Salaries and Employee Benefits	2.6	2.1	5.1	4.3
Decrease (Increase) in Unamortized Policy Acquisition Costs	(2.9)	(.3)	(3.9)	(1.1)
Licenses and Taxes	1.3	1.1	3.0	2.3
Other Expenses	3.3	2.7	5.7	6.5
Total	90.6	77.2	174.5	146.6
Operating Income	19.8	18.2	37.3	38.0
Foreign Exchange Gain (Loss)	(.5)	(1.1)	(.7)	(.7)
Income Before Income Taxes	19.3	17.1	36.6	37.3
Provision for Income Taxes	3.9	4.2	7.9	9.4
Income Before Realized Net Investment Gains	15.4	12.9	28.7	27.9
Realized Net Investment Gains	1.1	—	2.3	—
Net Income (Note 9)	$ 16.5	$12.9	$ 31.0	$ 27.9

Supplemental Information

During the Period				
Premiums Written	$121.9	$97.9	$ 218.9	$ 174.1
Ratio of Premiums Written to Shareholder's Equity (annualized)	1.26	1.15	1.13	1.03
At End of Period				
Investments*			$ 909.7	$ 804.0
Unamortized Policy Acquisition Costs			64.3	60.7
Total Assets*			1,102.3	831.8
Insurance Policy and Claim Reserves			596.4	509.5
Shareholder's Equity*			387.6	339.6
Life Insurance in Force			7,114.6	6,911.9

*Excludes investments in non-insurance subsidiaries.

(in millions)	Three Months Ended June 30 1981	Three Months Ended June 30 1980	Six Months Ended June 30 1981	Six Months Ended June 30 1980
Revenue				
Interest on Loans	$ 48.7	$ 35.0	$ 87.3	$68.9
Investment Securities Income	4.2	5.0	8.0	9.2
Income from Investment Real Estate	.2	.4	.5	1.0
Other	1.0	.6	1.8	.9
Total	54.1	41.0	97.6	80.0
Expenses				
Interest on Savings Accounts	44.8	31.4	79.3	56.5
Interest on Borrowed Funds	8.2	5.4	13.3	10.4
Provision for Losses	.1	.1	.2	.1
Salaries and Employee Benefits	3.9	3.0	7.4	5.9
Other	5.4	3.7	9.7	7.0
Total	62.4	43.6	109.9	79.9
Income (Loss) before Income Taxes	(8.3)	(2.6)	(12.3)	.1
Provision for Income Taxes	(4.5)	(.8)	(6.3)	—
Net Income (Loss)	$ (3.8)	$ (1.8)	$ (6.0)	$ .1

Supplemental Information

During the Period				
Loans Acquired	$ 75.9	$ 59.5	$ 144.0	$ 121.9
Rate on Loans Acquired	14.98%	12.44%	14.60%	12.71%
Increase (Decrease) in Savings Account Balances	$ (21.9)	$ 23.1	$ (10.1)	$ 43.6
At End of Period				
Investments—Securities			$ 155.9	$ 124.3
Loans Receivable			1,809.0	1,458.8
Rate on Loan Portfolio			10.31%	9.54%
Total Assets			$2,090.3	$1,651.7
Savings Accounts			1,619.8	1,321.9
Cost of Savings			11.48%	10.09%
Overall Cost of Funds			11.71	10.09
Shareholder's Equity			$ 98.4	$ 87.1
Number of Offices			74	63

(in millions)	Three Months Ended June 30 1981	1980	Six Months Ended June 30 1981	1980
Net Sales and Other Revenue	$270.4	$247.1	$524.8	$500.5
Expenses				
Cost of Goods Sold (including certain buying and occupancy expenses)	188.6	175.1	366.8	357.6
Selling and Administrative Expense	62.9	63.3	124.3	124.7
Provision for Customs Duties (Note 1)	—	—	—	2.6
Interest Expense				
Beneficial Corporation	1.4	1.8	3.0	3.7
Other	8.9	10.9	19.8	20.3
Total	261.8	251.1	513.9	508.9
Income (Loss) before Income Taxes	8.6	(4.0)	10.9	(8.4)
Provision for Income Taxes	3.9	(2.2)	5.1	(4.4)
Net Income (Loss)	$ 4.7	$ (1.8)	$ 5.8	$ (4.0)

Supplemental Information

	Spiegel		Western Auto		Total	
	1981	1980	1981	1980	1981	1980
Three Months Ended June 30						
Net Sales and Other Revenue	$ 97.0	$ 79.7	$173.4	$167.4	$270.4	$247.1
Income (Loss) before Income Taxes	.5	(5.8)	8.1	1.8	8.6	(4.0)
Net Income (Loss)	.3	(2.9)	4.4	1.1	4.7	(1.8)
Six Months Ended June 30						
Net Sales and Other Revenue	197.0	169.0	327.8	331.5	524.8	500.5
Income (Loss) before Income Taxes	(1.7)	(9.2)	12.6	.8	10.9	(8.4)
Net Income (Loss)	(.8)	(4.6)	6.6	.6	5.8	(4.0)
At June 30						
Receivables, Net of Unearned Finance Charges	417.6	430.5	150.7	125.8	568.3	556.3
Allowance for Doubtful Receivables	26.6	27.4	14.5	14.0	41.1	41.4
Inventories	46.7	45.0	152.7	159.3	199.4	204.3
Total Assets	497.1	514.0	368.8	357.9	865.9	871.9
Shareholder's Equity	85.7	81.4	195.0	185.9	280.7	267.3

Notes

1. At March 31, 1980 Western Auto and Midland International Corporation, a wholly-owned Merchandising Division subsidiary, established a provision of $2.6 million as a result of an agreement for the settlement of claims for dumping duties assessed by the U.S. Customs Service on television sets imported from Japan by Midland and Western Auto through March 1979. However, the U.S. government has been enjoined from putting the settlement into effect pending a determination whether the government had the authority to enter into the settlement.

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